



**WARRIOR TRADING**



**DAY TRADING**  
**GUIDE**  
**FOR BEGINNERS**  
**2021**



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Your results may differ materially from those expressed or utilized by Warrior Trading due to a number of factors. We do not track the typical results of our current or past students. As a provider of educational courses, we do not have access to the personal trading accounts or brokerage statements of our customers.

Available research data suggests that most day traders are NOT profitable.

In a research paper published in 2014 titled "Do Day Traders Rationally Learn About Their Ability?", professors from the University of California studied 3.7 billion trades from the Taiwan Stock Exchange between 1992-2006 and found that only 9.81% of day trading volume was generated by predictably profitable traders and that these predictably profitable traders constitute less than 3% of all day traders on an average day.

In a 2005 article published in the Journal of Applied Finance titled "The Profitability of Active Stock Traders" professors at the University of Oxford and the University College Dublin found that out of 1,146 brokerage accounts day trading

the U.S. markets between March 8, 2000 and June 13, 2000, only 50% were profitable with an average net profit of \$16,619. In a 2003 article published in the Financial Analysts Journal titled "The Profitability of Day Traders", professors at the University of Texas found that out of 334 brokerage accounts day trading the U.S. markets between February 1998 and October 1999, only 35% were profitable and only 14% generated profits in excess of \$10,000.

The range of results in these three studies exemplify the challenge of determining a definitive success rate for day traders. At a minimum, these studies indicate at least 50% of aspiring day traders will not be profitable. This reiterates that consistently making money trading stocks is not easy. Day Trading is a high risk activity and can result in the loss of your entire investment. Any trade or investment is at your own risk.

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## Citations for Disclaimer

Barber, Brad & Lee, Yong-Ill & Liu, Yu-Jane & Odean, Terrance. (2014). Do Day Traders Rationally Learn About Their Ability?. SSRN Electronic Journal. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2535636](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2535636)

Garvey, Ryan and Murphy, Anthony, The Profitability of Active Stock Traders. Journal of Applied Finance, Vol. 15, No. 2, Fall/Winter 2005. Available at SSRN: <https://ssrn.com/abstract=908615>

Douglas J. Jordan & J. David Diltz (2003) The Profitability of Day Traders, Financial Analysts Journal, 59:6, 85-94, DOI: <https://www.tandfonline.com/doi/abs/10.2469/faj.v59.n6.2578>



## Foreword from Ross

Easy come. Easy go.

I often repeat that refrain while I am trading each morning from my home in the woods of New England. Those words are a reminder to me—and more importantly the thousands of viewers watching my live stream—that day trading is not a get rich quick pursuit. Your biggest wins in the stock market can easily be followed by your biggest loss.

On any given day someone can get lucky and hit a winning trade—floating away from their computer on the rush of being green and beating the market. But luck runs out. In order to be consistently profitable in the market, traders need mental discipline, the right tools, and a proven trading strategy. Rather than viewing the stock markets like a casino, traders should treat their career in day trading like a business—one that takes time to build and grow. The fact that you are reading this ebook indicates that you know this and are taking steps to educate yourself.

2020 was a watershed year for day trading. The lockdowns from the COVID-19 pandemic, abundant advertising from free brokers, and national news stories like the GameStop short squeeze all combined to create a surge in retail trading. A flood of more retail traders means more volume, more momentum, more volatility, and more opportunities in the market. Capitalizing on those opportunities will require preparation, practice, and patience.

In the following chapters, my team and I will cover everything from selecting a broker, to order types, to position sizing. Whether you are a beginner looking for an overview or an experienced trader interested in unlearning bad habits, this ebook will have valuable information for you. We hope you enjoy the book and keep in touch. You can reach the Warrior Trading Support Team by sending an email to [team@warriortrading.com](mailto:team@warriortrading.com)

To your success,  
Ross

# CHAPTER 1 – DAY TRADING BASICS

## 1.1 What is Day Trading

A simple definition would be: a speculative trading style that involves the opening and closing of a position within the same day.

Example: If you open a new position (buy shares of a stock) at 10AM and close it (sell those shares) by 2PM on the same day, then you have completed a day trade. If you were to close that same position the following day, it would no longer be considered a day trade.

Day traders, or active traders, typically use technical analysis and a trading strategy to make profits in a short period of time.

Additionally, day traders will often use margin (borrowed money from their broker) to increase buying power. You will learn about all of those topics and more in this e-book.

## 1.2 How Day Trading Works

Day trading works by capitalizing on short-term price movements in a stock through the active buying and selling of shares.

Day traders seek volatility—which is just short term movements in the prices of individual stocks. This volatility creates opportunities for traders to profit from rapid buying and selling of a stock.

The more a stock price moves up or down, the more profit a trader can make or lose in a single trade.

That's why traders must exercise strong risk management to keep their losing trades small and their winning trades large.

You can think of day traders as being a manager of risk. We put capital at risk in order to try and make more money. If we mismanage our risk, then we will have a hard time consistently making money.

Successful traders will often have predetermined entry and exit points before we even enter a trade.

This forethought and planning helps take emotion out of the trade, which reduces the chances that the trader will make costly mistakes and over-manage their position.



### 1.3 What You Need Before You Start Day Trading

Before you start day trading with real money there are three things you should do and have:

- Strong knowledge of day trading terminology and technical analysis
- A strategy that has been tested and proven to be profitable
- Proof of profitability in a day trading simulator

#### #1 – Strong knowledge of Day Trading

With years of day trading under his belt, Ross can confidently say that day trading is an exceedingly difficult skill to become competent at, let alone master.

You can think of day trading like playing a professional sport. Your ability to make money is based 100% on your ability to perform day in and day out.

Attempting to day trade without any sort of training or education is a recipe for disaster and loss of capital.

The first step to learning day trading terminology and technical analysis is reading books and

watching videos! This is the process of gaining knowledge. But remember, just because you read a book on sky diving doesn't mean you are ready to jump out of an airplane!

One of the challenges with learning to trade is the overwhelming amount of information out there. Oftentimes the information that you learn from different sources will be contradictory.

The reason is because the technical analysis or entry and exit requirements that work for one strategy, may not work at all for another strategy.

It is not helpful to your long term success to learn a little bit of 100 different strategies. It's much better to learn as much as possible about 1 strategy that is proven to be profitable.

So while you are considering who you will learn from, it's always important to ask yourself, is this person actually profitable?

Ross takes pride in being one of the most transparent traders out there with all his trades verified and even posted on our YouTube channel.

Unfortunately, you will find that very few people

provide proof of profitability. The information that these “experts” provide should always be taken with skepticism.

Regardless of whether you decide to learn to day trade in my premium classes or from somebody else that is proven to be profitable—the first step to learning is dedicating time in your schedule to studying.

### **#2 – Developing a profitable day trading strategy or adopting a proven day trading strategy**

It took Ross about 2 years to develop the strategy that he trades today. As an aspiring trader, you have two choices. You can either adopt a strategy already being actively traded by others, or you can create your own.

If you create your own strategy, be prepared to spend months, or even years testing and refining before you can trade with real money.

Most beginner traders, rather than trying to reinvent the wheel, decide to master a strategy that’s already been proven to be profitable. After mastering that strategy, traders may decide to put their own spin on it by making a few changes.

Regardless of your approach, it is important to

have a specific setup, trading system, or methodology that you are comfortable with when you start trading.

This allows you to develop competency by focusing on one thing—rather than trying to find opportunities for several setups at once.

Master one setup before focussing on multiple types. You can always learn more down the road if the setup/system you choose isn’t ideal for you.

The important thing is consistently sticking to one thing at the beginning and mastering it. If you try to trade 5 different strategies at the same time, then it will be difficult to differentiate which strategies are profitable and which ones are costing you a lot of money.

### **#3 – Converting Knowledge to Skill by Practicing in a Day Trading Simulator**

You may have taken a few quality trading courses, read a book or two, and have been watching our daily trading breakdowns and feel like you are ready to trade.





But the reality is you are probably not ready. Beginner day traders notoriously overestimate their ability, start trading with real money, and lose.

Intellectually understanding day trading and actually being able to react to opportunities and effectively executing them in real time are two different things.

This is where practice comes into play.

You need a trading simulator where you can practice in real time your strategies until you are comfortable with order entries and trade management.

***If you can't make money in a trading simulator then chances are you can't make money in a real account!***

Jumping into a real trading account cold turkey is one of the worst moves a beginner trader can make.

## 1.4 How to Start Day Trading

Once you have learned a strategy and are trading it profitably in a simulator, you can now start to look at trading in a live account.

Here are the steps you will need to take:

1. Open a brokerage account and transfer money into it
2. Have a written trading plan that you will review every morning
3. Make your watchlist in the morning
4. Trade your plan and stick to it
5. Review your trades at the end of the day

One of the biggest pieces of advice we can offer new traders in a real account, is to take it slow. Don't dive in headfirst and trade max size. Ease your way into it until you are comfortable.

Trading in a real account adds a lot more emotion and pressure to your trading, which is something that will subside as you gain more experience.

Besides, you don't want to blow up your account and lose all your money on day one!

This leads me to our next topic: how much money do you really need for day trading?



## 1.5 How Much Money Do You Need?

This is one of the most common questions we get.

The amount of capital you need depends on whether you want to make day trading your full-time income or just a side hustle to make a couple of extra dollars.

As you probably know, Ross started a small account with just \$500 and turned it into over a million in just two short years.

That's an extreme example and most traders, even experienced ones, would have a hard time replicating that type of return. The point is you do not need a large amount of money to start day trading.

However, there are two questions you need to ask yourself when deciding how much money you need.

- How much money are you looking to make per day?
- How much money do you actually have to start day trading with?

Let's say you are looking to make \$100 a day but you only have \$1,000 to put towards your day trading account.

That means if you trade a stock that is at \$2.00 per share, you can buy 500 shares, which means you will need the stock to go up 20 cents in your favor to make your \$100 goal.

This is a very simple example because we didn't take into account margin which would allow you to have more buying power.

Make sure to watch our [Youtube video](#)

Ross goes into great detail about margin, PDT rule, and using offshore brokers.

This will help give you a full understanding of how much money you should aim to have when you open your day trading account.

## 1.6 Day Trading With Cash vs Margin

Day trading with a cash account means just that. You are only using the cash you have in your account.

With a margin account, you have the option to use leverage or margin to increase your buying power by borrowing funds from your broker.

Below are the main differences between a cash account and a margin account when it comes to day trading.

### Cash Account

- You can day trade as much as you want as long as your funds are settled (takes two days from the trade date to settle, click the cash account link for more info)
- You can only trade with the amount of cash you have in the account, no margin (borrowed funds)
- Placing day trades with unsettled funds could result in the account being suspended

### Margin Account

- Pattern Day Trader Rule applies: You can only place 3 day trades in a 5 business day period if your account balance is under \$25k
- You have 2x the buying power for accounts under \$25k and 4x the buying power for accounts over \$25k
- You can buy more shares than cash in your account since you are granted margin (also called leverage)
- You can lose more than you have in your account since you are trading with borrowed funds
- Placing day trades with unsettled funds could result in the account being suspended

As you can see there are some major differences but most day traders trade on margin due to the ability to leverage their account and trade bigger size.

Using margin can make smaller price movements more profitable for traders. Just take note of the unique risks involved with margin accounts and manage your trades appropriately!

## 1.7 Day Trading Rules for Margin Accounts (PDT)

The main rule pertaining specifically to day traders is the Pattern Day Trader (PDT) rule.

Pattern Day Trader Rule breakdown:

- PDT rule only applies to margin accounts
- 4 day trades within a five-day period labels you as a PDT
- You must have \$25,000 in your account to day trade once labeled PDT
- PDT accounts have 4x the buying power for day trading

The PDT Rule was designated by the Financial Industry Regulatory Authority (FINRA) in 2001 after many retail traders lost their shirts day trading during the dotcom bubble.

The rule essentially states that traders with less than \$25,000 in their brokerage account cannot make more than three day trades in a five-day period.

In other words, if you have a \$5,000 account, then you can only make three day trades (opened and then closed inside a market session) within a rolling five-day period.

Most brokers will not allow you to make the fourth, but if you do, you will be labeled a pattern day trader and your brokerage account will be restricted for 90 days.

Once you have \$25,000 in equity in your account, these restrictions no longer apply to you.

The PDT Rule is an important regulation that applies to day traders, but it is not the only one..

### Ways Around the PDT Rule

There are a couple of ways around the PDT rule, such as opening an account with an offshore broker—who is based outside of the United States and not subject to the same regulation as US-based brokers. Some offshore brokers that you can consider are TradeZero or CMEG.

You can also look at day trading futures. They are not required to follow the PDT rule like stocks so you can day trade as much as you want.

## 1.8 Finding Your Niche: When and What to Trade

### What Strategy Fits Best?

It is not uncommon for traders to fail and lose money because they are trading a strategy that is a bad fit for them, their risk tolerance, their account balance, and other factors.

At Warrior Trading, we have invested a lot of time and effort into providing our community with a variety of trading strategies to explore. Currently, we teach proven strategies in small cap stocks, large-cap stocks, and options trading all as a part of our comprehensive Warrior Pro program.

We recommend starting with the Warrior Starter classes (the first 15 chapters of our Warrior Pro program).

These classes teach important concepts that all traders need to know to set a solid foundation for proper trading education.

After mastering these lessons, we then recommend grasping the trading concepts taught within our Small Cap or Large Cap Day Trading courses. The best opportunities for practicing these trading strategies tend to occur between 9:30 AM and 10:30 AM EST.

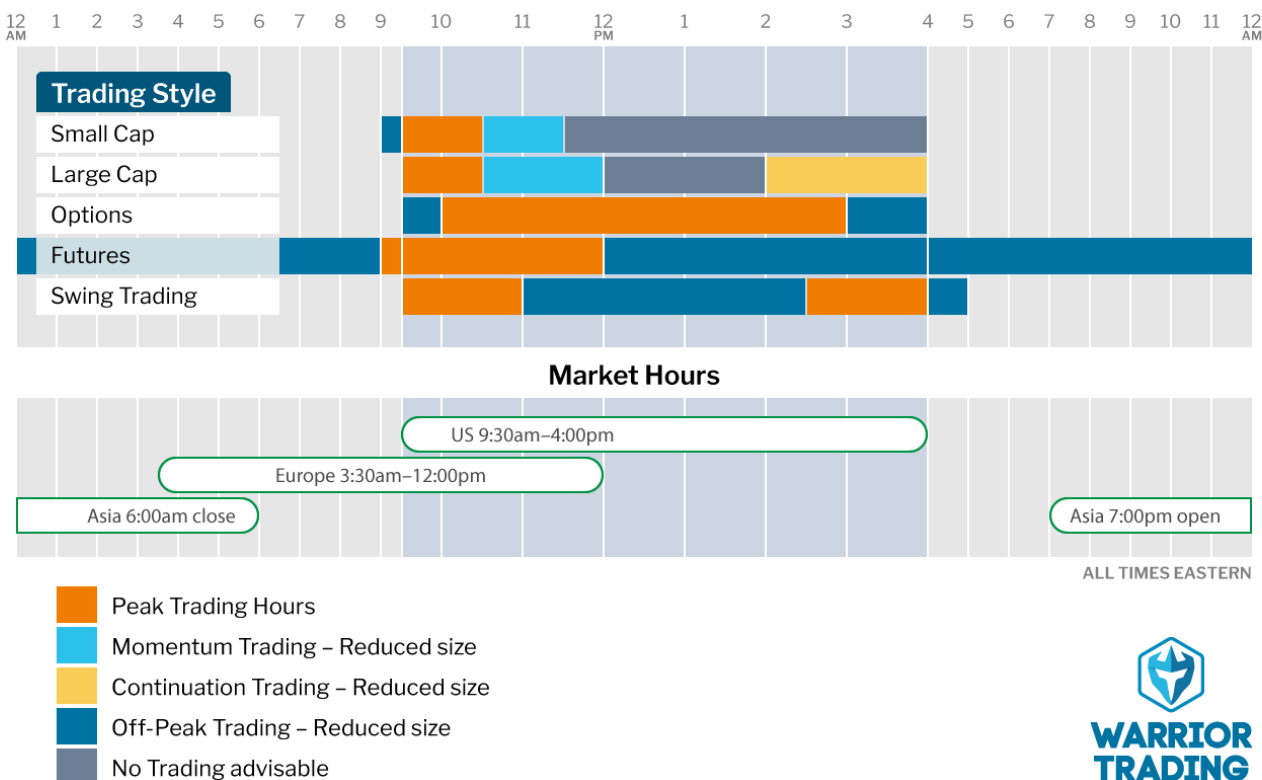
If you know you are not able to devote time to trade during the peak trading hours, using these strategies, then do not worry.

Our Options Trading classes, educators, and mentor sessions are available to all Warrior Pro members as well.

Better yet, all of Warrior Trading’s courses and mentor sessions can be reviewed at any time of day or night from an active Warrior Pro membership.

You can see in the visual below what our weekly education schedule for our members normally looks like:

## Best Times to Trade & Market Hours



# CHAPTER 2 – DAY TRADING TOOLS

## 2.1 Best Brokers For Day Trading

When you want to day trade stocks, options, currencies, futures, or other financial instruments, you need a broker who will execute the trades in the market on your behalf.

The broker you choose is a very important decision. They will play a key role in helping you to trade in the market day in and day out.

### How to Choose a Broker

The basic things to remember when picking a broker are simple and few. Undoubtedly, your first priority should be to make sure that your funds are in safe hands.

The best way to take care of this by ensuring that you only use a brokerage firm based in and regulated by a financial regulator in a respected financial center.

Once you have taken this precaution, look at what the broker offers in terms of:

- Commissions, electronic communication network (ECN) fees, data fees, margin fees, and fees for phone order executions
- Speed of trade execution and platform stability
- Range of available financial instruments and even access to international markets
- Customer service
- Customer incentives for new traders

It doesn't really matter which broker you choose, so long as you feel like your hard-earned money is safe and that the broker provides the necessary tools for your trading style.

### Our Favorite Brokers for Day Trading

#### **LightSpeed**

Lightspeed Trading is a premier broker when it comes to day trading and the one we recommend the most.

Their most popular platform, Lightspeed Trader, is packed full of technology including tools, advanced charting, direct market access, and much more.

The only downside is you need to have at least \$10,000 to open an account and \$25,000 to day trade since you will have to follow the PDT Rule we talked about earlier.



Students can also enjoy a special commission rate when an account is funded with \$25k or more.

Simply, [click the link](#) and follow the directions to receive your rebate!

### **TD Ameritrade**

TD Ameritrade is now commission FREE. This is huge for investors and day traders alike. What we really like about Ameritrade is their sophisticated platform, think or swim, as well as their excellent customer service and sophisticated tools.

TD Ameritrade's thinkorswim trading platform is widely considered one of the best trading platforms available. It is a desktop application that offers access to real-time data streaming, charting, technical studies, stock scanners, research reports, and more.

One of the highlights is their "On Demand" feature—this allows traders to test strategies and practice using actual recordings of the market action without risk.

All of these tools as well as the entire thinkorswim platform are available to all TD Ameritrade customers for free.

Between cutting their commissions to zero, offering a wide range of products to trade, and free access to Thinkorswim, TD Ameritrade seems to be the best "bang for your buck" in the discount brokerage space right now.

### **CMEG (Small Accounts)**

For an investment firm that is barely a decade old, Capital Markets Elite Group has grown to be a formidable force.

We really like how easy it is to use their platform along with their commission structure choices. Most importantly, they are an offshore broker which means that you do not have to worry about the PDT rule.

The main reason to use CMEG is that you only need \$500 to open an account to day trade and you will not be constrained by the PDT Rule. This flexibility helped Ross grow his account quickly when he did his first Small Account Challenge with CMEG.

The downside to CMEG is that they are not regulated like US brokers are, so there is some risk involved with opening an account.

Aside from that, CMEG has a ton to offer in terms of trading platforms, a mobile app, and products to trade.

Keep in mind you cannot open an account if you are Canadian. If you are a Canadian, then you can look at a similar broker like TradeZero.

## 2.2 – Charting

Almost all traders and investors use stock charts.

Whether it is an intraday chart or multi-year chart, stock charts place today's price in context. Within seconds, they give us information about the market's sentiment towards a stock, the short-term and long-term trend, as well as supply and demand.

Traders use stock charts to make a majority of their trading decisions, which is why it is so important to have excellent charting software.

eSignal offers the best charting platform for active retail traders and is what Ross and Mike both use for their technical analysis.

eSignal is lauded for its endlessly customizable charts and advanced analytical tools including automated systems, market profile, advanced volume analysis, technical indicators, and more.

### Awards

Being in business for decades, eSignal has won several awards. The most notable is their series of Reader's Choice Award wins—which are judged by Stocks & Commodities Magazine. These awards include:

- Best Real-Time/Delayed Data: 16 times since 1993
- Best End of Day Data: two times since 2006
- Best Stock Trading System: 11 times since 1994
- Best Futures Trading System: 12 times 1993

eSignal has also earned accolades from the World Finance Awards, Trader Planet Star Awards, the UK Forex Awards, and others.

eSignal is the industry standard when it comes to charting packages. The platform is customizable, runs well on many computers, is easy to use, and has just about everything an active trader could want. It is expensive when compared to other options, but you get what you pay for.

### eSignal Charting Software





## 2.3 – Warrior Trading Simulator

Warrior Trading has built a robust trading simulator platform to provide our students with the most realistic Trading Simulator environment (sometimes referred to as paper trading).

This unique platform offers REAL-TIME data from NYSE and NASDAQ. The data feeds include Level 2, Time & Sales, and Charts. Unlike simulators based on historical data, real-time data allows you to practice trading the markets side by side with our instructors and mentors in our Chat Rooms.

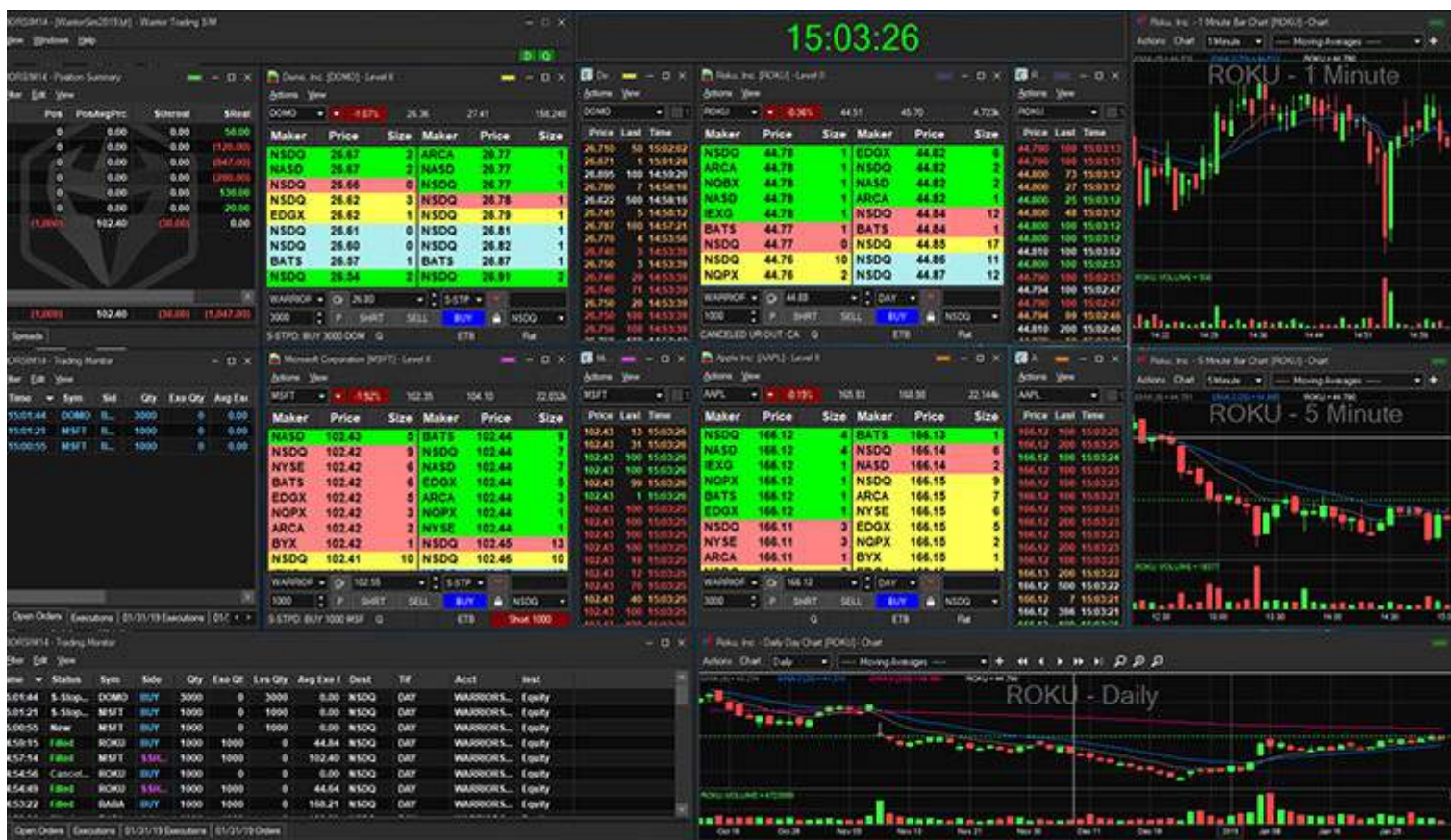
The Warrior Trading Simulator platform allows paper trading students to see their metrics and performance over time. As students use the platform, we monitor trades our students are making, aggregate the data, and provide metrics to help improve their performance.

While there are many paper trading platforms, the Warrior Trading Simulator offers advantages that many others do not.

Our simulator allows students to practice the same hotkeys and strategies they can expect to use while trading on the live market. You'll be able to make hotkeys for going long or short, create stop orders and profit targets, set a stop at breakeven, and cancel all orders with the ability to use an offset to guarantee fills in a fast-moving market.

Trading simulators are crucial for the development of beginner traders. Without practice, you're likely to make mistakes, especially while under the pressure of trading real money. Practice in a risk-free environment and learn the ropes so you can gain the confidence you'll need to trade with real money.

Warrior Trading Simulator



## 2.4 – Warrior Trading Stock Scanners

Stock Scanners are another important tool for day traders.

At Warrior Trading, we know that it is critical to find stocks making moves in real-time. We have integrated Ross’s years of experience and best practices into our new scanning system, available exclusively to our students.

Pro students have access to our entire suite of scanners. They are available starting at 4am ET each day until the market closes at 4pm ET.

Our scanners include:

- Gappers
- High of Day Momentum
- Halts
- Top Relative Volume
- Top Volume
- Top Gainers
- Top Losers

Without scanners, you are basically trading blind. Knowing what stocks are moving gives you an edge that is critical to your success.

Warrior Trading Stock Scanner

High Of Day Momentum Scanner											
Time	Symbol	Price	Volume Today	Float	Relative Volume(Daily)	Relative Volume(5 min)	Gap(%)	Change From Close(%)	News	Strategy Name	
10:22:08 am	SPI	9.45	2.09M	8.45M	0.26	223.75	7.24	26.68	SPI	Squeeze Alert - Up 10% in 10m	
10:22:07 am	SPI	9.42	2.08M	8.45M	0.26	223.75	7.24	26.27	SPI	Squeeze Alert - Up 10% in 10m	
10:18:57 am	SAIL	40.27	449.0K	87.92M	3.40	3,521.9	0.03	4.77	SAIL	Medium Float - Med Rel Vol - Pr	
10:18:20 am	SAIL	40.24	422.7K	87.92M	3.22	3,301.80	0.03	4.68	SAIL	Medium Float - Med Rel Vol - Pr	
10:17:44 am	SAIL	40.13	380.6K	87.92M	2.84	2,869.30	0.03	4.40	SAIL	Medium Float - Med Rel Vol - Pr	
10:17:35 am	SAIL	40.10	375.8K	87.92M	2.84	2,869.30	0.03	4.32	SAIL	Medium Float - Med Rel Vol - Pr	
10:06:11 am	ATRC	37.76	453.7K	37.55M	29.56	2,059.3	-8.35	-5.65	ATRC	Medium Float - Med Rel Vol - Pr	
10:06:02 am	ATRC	37.75	450.9K	37.55M	29.56	2,059.3	-8.35	-5.67	ATRC	Medium Float - Med Rel Vol - Pr	
9:51:06 am	CTIC	2.67	20.66M	57.08M	1,663.05	208,575.08	120.00	154.29	CTIC	Squeeze Alert - 52wk Breakout	
9:51:06 am	CTIC	2.67	20.66M	57.08M	1,663.05	208,575.08	120.00	154.29	CTIC	Squeeze Alert - Up 10% in 10m	
9:51:06 am	CTIC	2.67	20.66M	57.08M	1,663.05	208,575.08	120.00	154.29	CTIC	Medium Float - High Rel Vol - P	
9:51:05 am	CTIC	2.61	20.57M	57.08M	1,663.05	208,575.08	120.00	148.57	CTIC	Squeeze Alert - 52wk Breakout	
9:51:05 am	CTIC	2.61	20.57M	57.08M	1,663.05	208,575.08	120.00	148.57	CTIC	Medium Float - High Rel Vol - P	
9:51:03 am	CTIC	2.60	20.45M	57.08M	1,663.05	208,575.08	120.00	147.62	CTIC	Squeeze Alert - 52wk Breakout	
9:51:03 am	CTIC	2.60	20.45M	57.08M	1,663.05	208,575.08	120.00	147.62	CTIC	Medium Float - High Rel Vol - P	
9:51:01 am	CTIC	2.57	20.30M	57.08M	1,663.05	208,575.08	120.00	144.76	CTIC	Squeeze Alert - 52wk Breakout	
9:51:01 am	CTIC	2.57	20.30M	57.08M	1,663.05	208,575.08	120.00	144.76	CTIC	Medium Float - High Rel Vol - P	
9:50:56 am	CTEK	2.08	7.92M	8.35M	3,770.97	212,217.68	76.58	87.39	CTEK	Low Float - High Rel Vol	
9:50:53 am	CTEK	2.05	7.86M	8.35M	3,770.97	212,217.68	76.58	84.68	CTEK	Low Float - High Rel Vol	

# CHAPTER 3 – ORDER TYPES EXPLAINED

## 3.1 Limit Order

A limit order is an order type that tells market centers that you want to buy or sell a security at a specific price or better.

### How To Place a Limit Order

For example, in the below trading window you will see that Ross has an order ready to go that says he wants to purchase 1,500 shares at a limit price of \$128.65.

That means Ross only wants to buy shares of \$NFLX if the price comes down to his limit price or lower, so the highest that he will pay is his limit price.

The only downside to this is he may not get filled if prices keep going up and as you can see the bid is currently at \$128.69 and the ask is at \$128.72.

The same goes for sell limit orders. If he had shares of NFLX and wanted to sell them then he could place a limit order to sell shares at 128.72 and join the other sellers on the ask.

However, if buyers don't pay up to his price then he may not get filled on his order and will have to either lower his price or wait for prices to come back up. With a sell limit order, you will on get filled at your limit price or higher.

Limit Order

NFLX		↑	L	1500	Q:A NETFLIX, INC.		📈
L	128.71	N	+3.12	Tm	13:25:43	Vo	3,101,639
CI	125.59	Op	126.24	Lo	125.70	Hi	128.72
B	128.69	A	128.72	S	2	S	10
Size	1500	Destination	ARCA	Price	128.65	Stop Price	0
Reserve	0	Order Type	Limit	Duration	DAY	Peg Diff	0
Buy NFLX		Sell NFLX		Short NFLX		Cancel NFLX	

### 3.2 Market Order

When you place a market order you are saying that you will buy or sell at whatever price the market price is when you submit your order.

Looking at the below order window you will see that we have an order ready to buy 1,500 shares of \$NFLX at the current market price, which is the ask (since we are buying) at \$128.82. If we were placing a market order to sell then we would be getting filled at the bid of \$128.79.

Market orders are great for getting in and out of trades quickly, however, they have a major downside and that is slippage. In this example, we are using \$NFLX which isn't the most liquid stock in the market with the bid and ask sometimes only having a few hundred shares.

What happens is when you place a market order to buy for more than what is available at the current ask price you will then move on to the next price level.

So in this case we would buy up all the shares at \$128.82 and then we would go on to buy whatever is at \$128.83 and so on. This can cause real bad slippage and give you a high average price which will reduce your profit potential.

This is more of a problem when you are trading with larger size and it also depends on what you are trading. If we were putting this same order out on the SPYs we probably wouldn't have any slippage because it is so liquid with a ton of buyers and sellers.

The main point here is that you should only use market orders in an emergency situation. Like bailing on a position that is moving against you fast.

In normal circumstances, you should always use a limit order.

Market Order

NFLX		↑	L	1500	Q:A NETFLIX, INC.		📈
L	128.82	N	+3.23	Tm	14:06:22	Vo	3,493,260
CI	125.59	Op	126.24	Lo	125.70	Hi	128.92
B	128.79	A	128.82	S	3	S	1

Size	Destination	Price	Stop Price
1500	ARCA	128.65	0
Reserve	Order Type	Duration	Peg Diff
0	Market	DAY	0

Buy NFLX	Sell NFLX	Short NFLX	Cancel NFLX
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### 3.3 Stop Market Order

Stop order is a versatile order that can be great for getting in and out of trades. When you place a stop order you are saying that you want to get in or out of a trade when prices hit your stop price and once they do, it turns into a market order and will execute at the next available price.

Stop orders are mainly used for protecting long or short positions once you get into a trade. So for example, if you are long NFLX at \$128.25 and you want to protect your position if prices start to drop you can place a sell stop order that will trigger when prices trade at your stop price and then will turn into a market order closing out your position.

Sell-stops are usually used to protect long positions and will only trigger at or below your stop price while buy-stops are used to protect short positions and will only trigger at or above your stop price.

Resistance and Breakout

You can also use stop orders to get into a position like trading the breakout example above. If you notice there is a lot of resistance at a certain level you can place a buy-stop order just above that resistance which will trigger and buy shares if prices breakout above that resistance.

It's great for buying into momentum as shorts will most likely be covering above the resistance level causing the buying pressure to push prices even higher.

In the 5-minute chart of NFLX below you will see clear resistance at \$128.41 and once it broke through prices kept moving up with over 60 cents of profit potential.



# CHAPTER 4 – STOCK CHARTS GUIDE

## 4.1 How to Read Stock Charts

### Brokers

The above image is more or less what a standard stock chart will look like when you first open your brokers trading platform. You will have basic quoting data, either a line or candlestick chart, volume, and most of the time price will be on the right side of the chart along the y-axis with time running along the x-axis.

This is a daily candlestick chart of Apple. Each candle represents a day's worth of price action. You will also notice the teal-blue line running through the candles. This is a moving average that takes past pricing data and averages it over a certain period of time, depending on your settings.

The green vertical bars on the bottom of the chart represent volume, or the amount of shares traded during a day. You can see some days are more active than others and will have higher volume bars.

Zooming in on the data that is located on the upper left part of this chart—you will find important information like the ticker, exchange, and pricing data.

- Ticker – this is the symbol that the company obtained when filing to go public and is what is used when pulling up charts on a trading platform. No two companies can have the same ticker. In this example, AAPL is the ticker used for the company Apple Inc.
- Timeframe – daily means this chart is showing price action that occurred over a full day of trading. So each candle is one days worth of data. This can be customized to almost any timeframe with the 1,5 and 15 minute time frames being the most popular for day trading and the 30, 60, daily, and weekly the most popular for swing trading.
- Exchange – Apple trades on the NASDAQ but if you were looking at a company like General Electric it would show NYSE since they trade on the New York Stock Exchange. The NASDAQ and NYSE are the most common exchanges.
- L – L stands for last price so in this example the last price traded was \$179.14. B stands for Bid which was \$179.14 and A stands for Ask which was \$179.16 at the time of this writing. This changes often throughout the trading day. O stands for Open, which means \$178.92 was the opening print for the trading day.

- Hi – this is the highest price that stock has traded throughout the day.
- Lo – this is the lowest price the stock has traded throughout the day.
- V – is the volume traded for the day or the amount of shares that have traded hands
- Mov Avg Exponential – This is the setting for the moving average that is displayed on the chart. This is a 9-period moving average which means that it will take the data from the previous nine days and average them out to create a line over time.

### Line Charts

The most common type of stock chart you will see on websites like Yahoo Finance and Google Finance is a line chart.

Line charts are the stepping stone for beginner stock traders and are the most basic charts. They show the price trends of a stock over a selected period of time. The y-axis shows the price of the stock while the x-axis shows the period of time.

Generally, you will be asked what period of time you would like to have a look at when you are reading a stock chart. You can use a chart to see how a stock has performed in the past 5 minutes or 30 years.

For price, the lowest price is near the x-axis, with the highest near the upper right-hand corner. Line charts also contain the name of the stock as well as its ticker symbol.

Line charts are great for spotting trends but they lack in some other major areas like showing the range for the day which is important for day traders who are looking for stocks that have wide ranges.

FB Line Chart



### Candlestick Charts

The other popular charting technique for plotting price data in the stock market is candlestick.

Traders use candlestick charts to see the open, high, low, and close of a stock over a time frame.

The body of a candlestick chart further allows you to know how a stock closed relative to its open. It is typically colored red for down days and green for up days.

The first price traded during the candlestick is the open, and is indicated by either the bottom or top of the body. The top of the wick that occurs above the body of a candlestick indicates the highest price traded during the time frame.

There will be no upper wick in the candlestick if the open was the highest price during the time frame.

The bottom of the wick that occurs below the body of a candlestick indicates the lowest price traded during the time frame. A candlestick will

not have a lower wick if the open was the lowest price during the time period.

The last price traded during the time frame is the close, and is indicated by either the bottom or top of the body.

Candlesticks are by far the most popular charts because of the amount of information they display.

They show the intraday range, different types of candlesticks like hammers and shooting start which can help traders understand market sentiment quicker, and they work effectively on any time frame.

FB Candlestick Chart





### Identifying Trends

Trends are one of the easier things to spot on a chart. When stocks are trading in a set direction, whether up or down, they are referred to as trending.

Above you can clearly see that Apple is trending higher for a few months. The trick with trending stocks is to trade with the trend. Trying to fight it can be costly.

Look for pullbacks to important support levels or moving averages for entries to join the trend higher, in this case.

We do not know when a trend will end so a good rule of thumb is to stay in the trade until we get consecutive closes below a support level or a moving average.



**Identifying Support and Resistance**

Identifying support and resistance is one of the first things we teach new traders. These levels are where you want to be trading.

Above you can clearly see there is a defined level of support at the \$26.75 price and clear resistance at \$29.50. These levels mean there are buyers at the support prices and sellers at the resistance prices.

Why this is important is because if we know we can expect buyers or sellers to show up at a certain price, then we can expect a bounce to profit from.

Now obviously this doesn't work every time, but it puts probabilities in our favor which is our main goal as traders. It also provides you with a favorable risk/reward ratio with a defined stopping point.

If we buy at support then we know we are wrong if it breaks below that price and can exit the position. The same goes if we sell short off resistance.

A good setup for trading support and resistance levels is a breakout trade. This happens when a defined level of support or resistance forms and prices break through it.

There are a couple of things you want to look for on a breakout trade:

- High relative volume (volume picks up compared to previous trading periods)
- Prices hold above/below the level (ideally it breaks out and comes back and tests that level and holds, that is a good entry point)

Breakout trades are very popular because you can catch bigger moves, which is what we want!

Support and Resistance



### Why Stock Charts Are Important

A stock chart, particularly a candlestick chart, can tell you whether institutional investors and other big investors are heavily buying a stock or dumping it as fast as they can.

Traders can also use stock charts to tell if a stock is likely to keep bumping its head against a ceiling of resistance, or if it will find a floor of support from which it can continue jumping higher.

The other important thing to understand about charts is that they help you see what is really happening with a stock. Savvy investors use charts to spot anomalies and patterns, and to make wise decisions when buying or selling stocks. Charts help you spot timely sell and buy signals, and to analyze the health of a stock.

## 4.2 Candlestick Charts

Candlestick charts are now the de facto charting style on most trading platforms so knowing how to read candlestick charts is of utmost importance.

### What is a Candlestick Chart?

Candlestick charting is simply a method of displaying price information in a market. Unlike a simple line chart, each series on a candlestick chart contains four data points:

- The opening price
- The high price
- The low price
- The closing price

Here's an example of what candlesticks look like: As you can see, there's a red candlestick, and a green one, and they both represent different things. When a candlestick is red (this color may vary by platform and can be changed), it means that the closing price was less than the opening price.

Conversely, when the candle is green, that means that the closing price was higher than the opening price.

### Anatomy of a Candlestick

A candlestick has three basic features:

- The body, which indicates the open-to-close range
- The wicks (also called tails or shadows), which are the long thin lines above and below the main body. These reveal the intra-day high and low.
- The color, which represents the direction of price movement. A green (or white) body shows a price increase, while a red (or black) body indicates a price decrease.

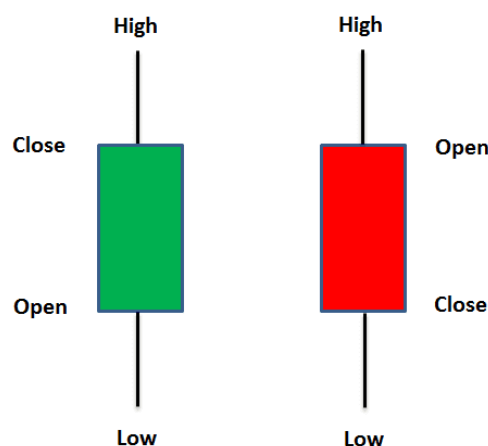
### Body

The main body (colored portion of the candlestick) shows you the opening price and closing price of the stock.

A long body indicates heavy trading and strong selling or buying pressure, while a small body indicates lighter trading in one direction and little selling or buying activity.

### Color

Green or white candlesticks signify the stock price closed higher than it opened. A red or black candle tells you the stock price closed lower than it opened.



### Wicks

The highest point of the upper wick shows you the highest traded price for that time period. If the open or close was the highest price, then there will be no upper wick.

The lowest point of the lower wick indicates the lowest traded price for that time period. If the open or close was the lowest price, then there will be no lower wick.

### Open, High, Low, and Close

Each marking on a candlestick (as displayed in the below image) represents either the opening price, the closing price, the high price, or the low price. On their own, those words make a lot of sense: you can figure out what the “high price” means, but their meanings can get a bit confusing when it comes to candlestick charting.

What comes into your head when you read the phrase “closing price?” You may think the stock market closes at 4PM. You are right, that is the close of the day. On a daily candlestick chart, in which each candle represents one trading day of price action, the candlestick close is equal to the last price traded on the day.

Candlestick Chart



But, what if we switch to a 5-minute chart, where a new candle is created every 5 minutes? Sure, the market still closes each day at 4PM, but on a given day, there are 78 five-minute candlesticks.

Here is a 5-minute chart for the entire day's price action on April 22, 2020:

TradingView Chart



There are roughly 78 candlesticks in that chart, and each candlestick has its own unique Open, High, Low, and Close. So every five minutes, there is a new “five minute high,” or “five minute close.” These values are arbitrary, and don’t have inherent meaning the way the actual open of the stock market at 9:30AM EST does. However, many traders use these arbitrary values to create trading strategies.

Now that you have a basic understanding of how to read a candlestick chart, let’s talk about some of the best free stock charting software out there.

### 4.3 Best Free Stock Charts

As we discussed earlier, eSignal is a powerful charting tool that Ross uses in his day-to-day trading. Below are some other options with free membership tiers that you can consider.

#### Tradingview

If you value a stock chart software with great technical and fundamental analysis, then we recommend Tradingview. Made for day traders, the software lets you discover investment ideas and learn from the community.

Easy and intuitive, no complex setups or installations needed. You can access browser-based charts with real-time data getting you started immediately. Like most stock chart software, Tradingview is free but to access advanced features, you need to upgrade.

## TradingView Chart



Tradingview features include:

- Different chart types
- Spread charts
- Advanced price scaling
- 50+ intelligent drawing tools
- Multiple chart layouts
- Server-side alerts
- Stock screener
- Supports multiple brokers
- Customized technical analysis
- Broad market data coverage

Apart from accessing in-depth features, upgrading to their paid Pro, Pro+, or Premium plans all allow you to enjoy an ad-free experience. You also have access to Tradingview social network where you can learn from community members.

### Stockcharts.com

With Stockcharts.com, not only will you get to see markets more clearly but you will find new opportunities and improve your portfolio management. StockCharts is trusted by millions of day traders and online investors around the world. Why? It creates high financial charts in seconds.

You can also create bigger and more advanced charts or run custom scans to locate winning stocks. Plus, you can set automatic alerts and receive daily market commentary from industry-leading traders.

StockCharts.com Chart



Try StockCharts for free thanks to the 1-month free trial. StockCharts has award-winning features such as:

- Advanced winning chart
- Real-time intraday data
- More indicator and overlays
- Organize charts with ChartLists
- Intuitive Member's dashboard
- Advanced technical scanning
- Custom alerts
- Expert market commentary

With StockCharts, you don't have to download or install any software. You can access everything on a modern browser using your laptop, desktop, tablet or smartphone.

### FinViz

Financial Visualizations is a free stock chart software that has remained unchanged for many years. It has a stock screener which allows you to screen using a variety of technical, descriptive and fundamental metrics. It also provides useful information such as quotes and real-time news.

Apart from the stock screener, you have the heat map with S&P 500 index stocks grouped by industries and sectors. If you desire, you can switch from the map to bubbles. FinViz also provides data on futures, forex, and crypto.

Although FinViz is a great tool for the advanced day trader, it has a few constraints. For starters, users are constrained to using the drop-down menus with pre-specified ranges. As such, you cannot select or input your values. Second, FinViz does not allow you to export results.

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Available features offered to FinViz Elite users include:

- Real-time quotes
- Premarket data
- Advanced visualizations
- Backtesting
- Advanced screener
- Alerts and notifications

The good news about FinViz is that it can help you make sound stock-picking decisions.

FinViz Chart





## Yahoo! Finance

Yahoo! Finance is one of the most popular stock charts. Designed with an intuitive interface, it offers free real-time quotes for NASDAQ listed stocks and the New York Stock Exchange. It also offers free interactive charts together with a selection of more than 100 technical indicators.

Traders have the opportunity of creating an unlimited list of stocks to follow. You can even link Yahoo! Finance to your brokerage account. This will allow you to implement trades based on your sound strategies.

To access more features, try Yahoo! Finance Premium. A 28-day free trial allows you to test advanced features such as:

- Exclusive insights and data
- Advanced charts and tools
- Intuitive data visualization
- Advanced portfolio analytics
- Enhanced charting for technical and event analysis
- Ad lite experience
- Live chat on desktop

## Yahoo! Finance Chart



# CHAPTER 5 – DAY TRADING STRATEGIES

## 5.1 Penny Stocks

There are a lot of different types of penny stocks but the ones we focus on are companies that are around \$5 per share and listed on a major exchange like the NYSE or NASDAQ.

To be listed on an exchange, companies are held to a higher standard of transparency with their business activities and financials.

We have three specific parameters that we use to look for penny stocks that have the highest probability of making a huge run.

**Parameter 1: Breaking News** – First, look for stocks that are gapping up because of some kind of news catalyst like FDA approval or earnings but we want to stay away from any stocks that are being bought out because they usually don't trade away from their purchase price.

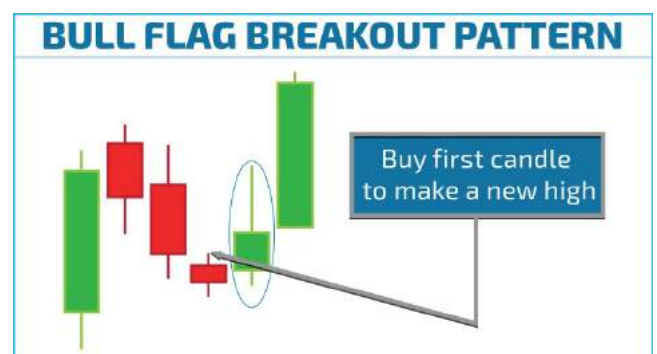
**Parameter 2: Float** – Ideally we want the float to be under 100 million shares but under 50 million is even better. This is because when a stock has a small amount of shares to trade and there is a lot of buying interest then it could push shares up very quickly which is exactly what we are looking for.

**Parameter 3: High Relative Volume** – We like to see the stock active in the premarket with solid volume. Usually, stocks with news will be gapping up in the premarket on really good volume so we know right off the bat that this stock will have plenty of liquidity for us to trade with size.

Once Ross makes his watchlist of the best-looking stocks with the above criteria he will wait for the market to open and see if breakout over premarket highs for an entry or wait for a bull flag pattern.

### Penny Stock Chart Patterns

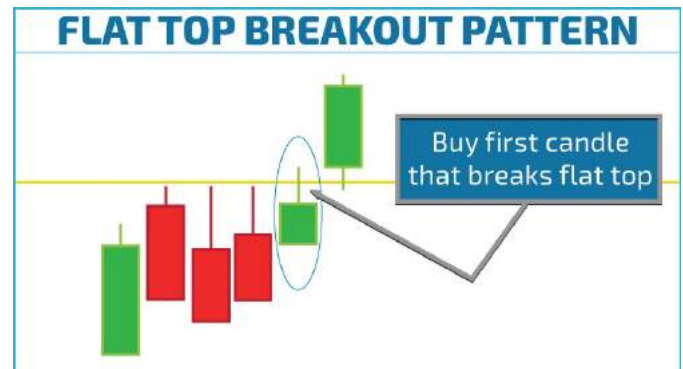
One of Ross's all time favorite patterns is the bull flag pattern. It is a super easy pattern to spot and it has a defined risk point where you know exactly when you are wrong on the trade and it is time to get out.



You want to see the stock run higher and then have a light volume pullback, usually to the 10 or 20 day moving average on the 1 or 5-minute chart, where it will find support and buyers will jump back in to take it higher.

The key to trading this pattern is waiting for volume to pick back up as buyer's pile in and then jumping in with them.

Ross's other favorite pattern is a flat top breakout over premarket highs. Shorts will put stop orders in just above highs so Ross knows if it breaks above it we will see their buy stop orders trigger which will help push shares higher.



## 5.2 Momentum

Momentum is what day trading is all about.

One of the first things Ross learned as a beginner trader is that the only way to profit is by finding stocks that are moving. The good news is that almost every single day there is a stock that will move 20-30% or even more! This is a fact.

Momentum stocks all have a few things in common. If we scan 5000 stocks asking for only the following criteria to be true, we'll often have a list of less than 10 stocks each day. These are the stocks that have the potential to quickly move 20-30%. These are the stocks that Ross trades to make a living as a trader.

### Criteria for a momentum stock candidate

**#1:** Float of under 100mil shares

**#2:** Strong Daily Charts (above the Moving Averages and with no nearby resistance).

**#3:** High Relative Volume of at least 2x above average. (This compares the current volume for today to the average volume for this time of day. These all refer to the standard volume numbers, which are reset every night at midnight.)

**#4:** A fundamental catalyst such as a press release, Earnings, FDA Announcement, Activist Investors or some other kind of breaking news. Stocks can also experience momentum without a fundamental catalyst. When this happens, it is called a technical breakout.



After we find stocks using our proprietary scanners that meet the above criteria, we then look for strong moves right at market open for entries or a micro-pullback that forms a bull flag like we mentioned in the penny stocks section above.

Above is a real-life example of a penny stock momentum trade that Ross took following a perfect bull flag pattern.

You can see we had a strong move out of the gates with a pull back/consolidation close to the highs. Then you can see the breakout candle pushing through the yellow line on high volume.

This is a picture-perfect setup and one that Ross will take every chance he gets.

## 5.3 Reversal

One of our favorite strategies is the Reversal Day Trading Strategy. This Strategy complements our Momentum Day Trading Strategies.

We apply the Reversal Strategy for both Day Trading and Swing Trading.

The primary reason we like our Reversal Day Trading Strategy is that it allows us to enter a stock very close to support or resistance.

As traders, we want to find the opportunity to take a position on a stock near an important inflection point. This gives us a great place to place stops and manage risk.

### Criteria for a reversal stock candidate

**#1:** Stocks hitting new intraday highs or lows

**#2:** At least 5-10 consecutive 5min candles of the same color

**#3:** Ideally the Relative Strength Index (RSI) will be below 10 or above 90 to indicate extreme conditions

We think of these stocks as a rubber band, the more stretched out it is, the better the snap back potential

Look to buy the first candle that begins to reverse with a stop either at the high/low or minus 20 cents

Use trailing stops to keep yourself in these winning trades as long as possible



The chart above is a good example of a stock that was trending up and had an explosion higher that resulted in a reversal or pullback. You could have played this two ways, shorted at the extreme high for a reversal or play it as a bull flag for a continuation move.

Both would have been successful trades.

## Reversal



Above is a great reversal example. Prices exploded higher and eventually peaked forming a bearish spinning top.

The entry would be on the break below the low of the bearish spinning top candle with a stop above the highs. When prices trend lower like this, a trailing stop is a great way to manage risk. Reversal trades are not for the faint of heart.

They can be difficult to time and are a strategy that is fighting the overall trend. However, being able to play both sides of the market, long and short, makes you a more versatile trader. Reversal trades require superb timing and may be better suited for traders with a little more experience.

## CHAPTER 6 – TRADING TACTICS

### 6.1 Position Sizing

Position sizing refers to the parameters that dictate how much capital you allocate to a given trade, and how that relates to the level of risk you take on in each trade. Several factors play into developing a position sizing methodology. The first is the size of your trading account. As your account size grows, you will generally risk a smaller percentage of your account on each trade.

#### Determining Your Risk Per Trade

Depending on your trading goals, the method in which you determine how much to risk per trade may differ. Generally, though, there are two main methods:

#### Percentage of Portfolio

This is by far the most commonly recommended method and is used widely by fund managers and professional traders. On each trade, you risk a fixed percentage of your account.

As a rule of thumb for individual traders, the larger your account is, the fewer percentage points you'll risk per trade. One percent of a \$25,000 account is just \$250, while one percent of a \$1,000,000 account is \$10,000.

Most individual traders don't desire to risk that much on a given trade and typically will reduce their risk-per-trade as their account grows.

### Fixed Dollar Amount

For various reasons, some traders ‘cap out’ their account size, and don’t continue raising their position sizes as their account grows. One reason might simply be risk averseness. Due to the stressful trading psychology at play when risking a large amount like \$5,000 or \$10,000 on each trade, traders may be more comfortable and focused with a fixed limit on what they are willing to risk.

Another reason might be that the trader’s strategy is not scalable, such as trading OTC stocks. This position sizing method could also be applied by losing traders who have a regular paycheck and can keep adding to their account as their losses pile up.

These traders tend to implement a fixed dollar amount of risk per trade. Based on their goals, they have identified a dollar amount they’re comfortable with losing on a given trade.

### The Importance of Stop Placement

Whether or not you actually place your stop orders, it is a good idea to have a defined point of exit on each trade. This is so you can quantify the exact risk you are taking on each trade.

From a trading psychology perspective, this practice can reduce the chances of letting emotions get the better of you in the middle of a stressful trade. Letting a trade go against you for too long because you never had an exit strategy can be a costly error.

Once you know the amount that you are comfortable risking on each trade, we combine that number with where we place our stop loss to determine our position size.

### Determining Stop Placement

There are several ways to determine where to place your stop loss, and each method has utility in different situations.

### Volatility-Based

A volatility-based stop loss is probably the most commonly used method by professional traders because it’s the most quantitative. It is based on the idea that market movement is mostly noise. Traders and investors on different time frames make trades to achieve different goals, in a small enough window, there is little discernible information for a single trader.

To combat this noise, traders will place a stop loss based on a multiple of a market’s volatility. This way they know that if they get stopped out, they were likely wrong on price direction because the market moved against them more than it would on average, based on its level of volatility. Most traders use the Average True Range indicator to quantify the volatility of a market. Let’s look at an example.

Below is a daily chart of Nvidia (NVDA). Let’s say that we want to get long on the recent breakout to new highs. Before we can enter the trade, we have to determine our exit point. The daily average true range is at \$5.95, which means that

Nvidia



Nvidia has an average daily range of \$5.95.

Seeing as any price movement within that daily range can be construed as noise, we need to place a stop at multiples of the ATR. For years, the most common stop loss level was 2x the ATR, but traders like Linda Raschke say that in recent years the level of market noise has increased, necessitating larger stops. So in this example, we'll use a stop of 2.5x the ATR, which is a \$14.87 wide stop loss, putting our stop loss at \$180.55.

Let's assume we're trading a \$100,000 account and we want to risk 1% of our portfolio on each trade, this gives us a risk of \$1,000 for the trade. To find out the number of shares to buy, we simply divide our total risk of \$1,000, by our stop loss size of \$14.87. This gets us 62 shares.

### Standard Deviation-Based

This methodology is more popular among traders who ascribe to the auction market theory. These traders view market movement as being normally distributed, like on a bell curve.

To use a standard deviation-based stop loss, we need to have a reference point, like a moving average. Many indicators have been developed to assist with this, the most prevalent being Bollinger Bands, which plot a number of standard deviations around a moving average.

Here is a chart of SPY with Bollinger Bands. We have it set to plot bands two standard deviations away from a 20-day simple moving average. Based on your trading philosophy, the trend following or mean reversion (both have application), a stock touching its Bollinger Bands can mean that it is overextended, or that it might be the sign of an impulse move that can begin a new trend.

Bollinger Bands



Now let's look at a longer-term trade example. Let's assume you want to get long on SPY because you think that the bull market is going to continue. You see this being a multi-month long trade, so your lookback period should reflect that assumption. Perhaps we will use the 50-day simple moving average as your reference point, with the bottom band (two standard deviations from the 50SMA) being your stop loss.

We can see that the bottom band is at \$284.38, which will be our stop loss, \$14.23 away from the current price which will be our long entry. Using the same risk parameters as the last example, we'll be risking 1% of our \$100,000 account, which is \$1,000.

Again, we will simply divide \$1,000 by \$14.23, which comes to 70 shares.

Bollinger Bands on a longer-term trade



### Vital Market Levels

Some traders use levels like support, resistance, or indicator values to place their stops. These types of trades can sometimes offer asymmetric reward/risk profiles. In a scenario where you are bullish on a stock that is very close to a vital support level, you can go long with a small amount of risk because you are using the support level as your stop loss.

However, market noise is a potential challenge with this type of stop placement. Many of price levels that traders think are support or resistance levels are actually levels where the market just happened to trade at multiple times. An actual

support or resistance level is a point at which the supply and demand balance is disrupted and the market moves away from the level. It is easier said than done though, it can be difficult to discriminate between what might be a 'random' support level and a true level of support where there is outsized demand.

The idea is the same, use the level to place your stop, then use the stop to determine your position size based on your risk parameters.



Below is an example in ADP's stock. There seems to be a level of support around \$150.75, marked by the red line on the chart.

Level of Support



If we use the support level of \$155.75 as our stop loss and enter at the current price of \$163.65, then we get a \$7.90 wide stop loss. Using the same risk parameters as earlier, risking 1% of our \$100,000 account, leaves us with \$1,000 of risk on this trade. Dividing our risk of \$1,000 by our stop loss width of \$7.90 brings us to 126 shares.

### Percentage Loss in Stock

This method is mostly used by long-term swing traders. It is simple, if the stock drops X% below our entry price, then we sell. It sounds inferior to the above methods that employ either price action analysis or some quantitative reading of market volatility, but the method has been used successfully by some of the best-known stock traders.

## 6.2 Using Multiple Time Frames

Whether you trade from a tick chart or a daily chart, it's always useful to see price action from multiple timeframes and ensure they're all telling a similar story. Technical analysis using multiple timeframes is a great way to do this.

Sometimes you'll see a great setup on an intraday time frame like a 5-minute chart, only to see that the long-term trend on the daily and

hourly charts are in the opposite direction. Time frame continuity is just one more way of putting the odds further in your favor.

### What Are Charting Time Frames?

Any modern charting package will have several time frames for you to pick from. A time frame is an interval that creates a new price bar. For example, a 5-minute bar means that a new candlestick/bar is created every 5 minutes, each one representing 5 minutes of market data. Generally, the time frame you use for trading defines a few things: the amount you are risking on a trade, and the amount of time you will be in a trade.

A setup on a 1-minute chart can take just a few minutes to play out: you can be in and out of the market at that time. The same setup on a weekly chart can take a couple of months to work out.

In addition to using longer-term charts as confirmation tools, they are also useful for identifying vital levels. A resistance level that has been respected on a daily chart for over a year is much more significant than a support level on a five-minute chart that has been respected only for a few hours.

### Why It's Important to Use Multiple Time Frames

#### Confirmation

We know that trading is all about putting the odds in your favor. You cannot predict what the market is going to do next, and most traders only win around half of their trades. It is prudent to make sure that any trade you are going to take has a reward/risk ratio skewed in favor of reward. We want our average winning trades to be much bigger than our average losing trade.

One way to put the odds further in our favor is to confirm trading setups and price action on multiple time frames. If you see a setup forming on a 1 minute chart, but the hourly chart looks like it's playing against that setup, you're not playing the odds.

Let's use an example. Here is a 15 minute chart of Edwards Lifesciences Corp (EW):

There is a clear downtrend, here. Lower lows and lower highs are constantly being put in, and the most recent impulse move downward was met with high volume, while its subsequent consolidation upward was on weak volume: a sign of trend continuation.

For many traders, this is a great opportunity to wait for a pullback to a lower high and get short. We might change our mind once we take a look at a different time frame though. Let's look at a weekly chart of EW.

15-Minute Chart



## Weekly Chart



The stock has been in a very strong uptrend for several years at this point. There are institutions like mutual funds, hedge funds, and asset management firms buying more of this stock every month. Do you really want to be caught short, knowing that a huge buying program might be turned on by an institution at any time?

It would be more prudent to look for buying opportunities in a stock like this. This might seem obvious, but look back at some of the intraday trend trades you have made recently. Did you confirm price action on multiple time frames? If not, go back at some of your failed trades, and you might find that you were trading against the wind of the market.

Many traders who utilize multiple time frames in their trading have rules for combining time frames. For example, they wouldn't use monthly charts in conjunction with a 5-minute chart. Instead, they'll use one or two-hour charts to support their 5-minute charts. This is a logical line of thinking, and it absolutely makes sense to use similar time frames in conjunction, but the highest probability setups occur when several time frames are in harmony with each other.

### Getting a Different View

Sometimes you stare at one time frame so long that you forget what the chart might look like in another time frame. You might stare at a five minute chart all morning and get so locked into it that you might not see a reversal happening in the longer time frame.

What looks like an uptrend on an intraday chart may be a lower high being formed on a daily chart. Sometimes looking at multiple time frames will change your bias completely. You may be looking for entries to get long, until looking at the daily chart prompts you to shift to looking for short setups.

### Letting Trades Run

For many, trading returns follow the Pareto Principle: that roughly 80% of your returns come from 20% of your trades. Their trading account will be playing small ball for most of the year, taking small wins and losses, until those big trades come, and those are the difference in your annual returns. You can allow your 20% to be losing trades or winning trades, it is mostly a matter of money management.

Using multiple time frames is a great way to expose yourself to potential home-run trades. It is one thing to use hourly and daily charts to confirm a setup on a 5-minute chart, but if that is all you are using them for, then you are missing out on valuable information.

Sometimes the setup that you see on the 1 or 5-minute chart plays out on a longer time frame. A breakout on a 5-minute chart might turn into one on an hourly chart, which might turn into a daily chart breakout. The longer the time frame gets, the larger your gains will be after the trade ends. We know that a daily chart breakout is more significant than one on an intraday chart.

In these situations, you will have entered into the trade early, before the trend followers get in, allowing you to see the trade through further than them. These trades can be your year's biggest winners.

### Identifying Vital Levels

Perhaps you are trading on a 5-minute chart and you identify a support level that has been defended several times. By going out to longer time frames, you can see how significant this level is, or if it is just a short-term level.

We know that support and resistance levels are formed by repeated buying and selling at specific levels, most of the time it is institutions accumulating or liquidating a position. The difference between a support level on a 5-minute chart and one on a weekly chart is paramount.

A level that only exists on a 5-minute chart could be an exchange-traded fund (ETF) or mutual fund simply rebalancing. Once that is completed, the level is also finished. A level on a daily or weekly chart, on the other hand, has been defended for weeks, months, or years. It is clear that big fish have been accumulating or liquidating around that price for a long time, making it more likely for them to continue doing so.

Here is a 5-minute chart of Amgen. We immediately see pretty strong resistance around the \$177 level.

5-Minute Chart



Now, here's a daily chart of Amgen, and we can see that the \$177 level is not that important in a longer time frame.

Daily Chart



### How to Use Different Time Frames to Make Decisions

Below we have a 5 minute chart of Apple.

5-Minute Chart



We see a bit of a battle between bulls and bears above. The bulls are trying to break out above the channel on the open but it keeps getting denied, even on high relative volume. Observe the strong support level between \$199 and \$200, any tests of that level are denied on low volume.

That is the price action we see on a 5-minute chart. A novice or intermediate trader might suspect fade breakouts above that \$206 level, or buy support around the \$200 level. However, they are not seeing the bigger picture. It is important to put this 5-minute chart in the context of longer term price action. Doing so will give us more confidence in the levels we are trying to trade.

Even going out to the hourly time frame can give us a different perspective. Below is an hourly chart of Apple during the same period.

Suddenly, those 'failed breakouts' have a different context. While the initial impulse moves are being rejected, the stock is still making higher highs and higher lows, as marked by the arrows on the chart, meaning the uptrend is still intact.

Going even further out onto the daily chart, we can see that Apple has been in an uptrend for all of 2019. While not the most technically strong uptrend, it does not play in your favor to try to fade moves within the uptrend: you are not playing the probabilities.

### Hourly Chart



### Daily Chart



## WeeklyChart



## 6.3 Risk Management Strategies

Risk is the amount of money that you could lose on a trade. It is not the realized loss but instead what could be the realized loss. The best way to measure loss is to predetermine how much you are willing to lose.

Before you place your trade, you want to have a clear idea of where you will exit the trade with both a stop loss level and a take profit level. Just by going through this process, you will limit your risk. Traders that avoid formulating a plan, will face unexpected situations and will not have a plan on how to deal with it. Your risk should be predicated on your strategy returns.

### Here is the Math

Let us assume that you plan to execute nine trades per day, across all the securities that you will day trade. If you win more than you lose, you can afford to win the same amount that you lose to have a successful strategy

(( 5 winners x \$100 = \$500) – (4 losers x \$100 = \$400) = \$100).

Alternatively, if you lose more than you win on the same nine trades you will need to win more than you lose on each trade to be successful

((4 winners x \$200 = \$800) – (5 losers x \$150 = \$750).

You can use this strategy to form a reward versus risk ratio. This will allow you to determine if your plan will be successful over time. If your risk management plan does not produce a strategy that will be financially successful, then you need to modify the plan until you have one that works.

### Here are some Techniques

There are several ways to determine the appropriate stop loss and take profit levels that will formulate a risk management plan. When you are day trading the goal is to exit your positions before the day ends.

This means you should know how much each security you plan to trade, moves per day.

You can start by determining the daily volatility of the product you plan to trade. This will give you an idea of how much you can make or lose on average during a day. You can calculate this information yourself or look for it online.

If you are trading forex you can look for the amount in pips, or percent. If you are trading stocks the volatility might be in dollars.

### Determining a Stop Loss

One way to start determining your reward to risk ratio is to formulate your stop loss level. Your stop loss level could be a percent per each trade. Alternatively, it could be a dollar amount or below a specific chart point trigger.

A percent return is one of the easier calculations. Your first step is to determine whether your trading strategy can be successful. The best way to do this is to back-test it. You can even do this manually by looking to see if it worked in the past. The next step would be to test your strategy in real-time. You can use this same method for a dollar figure instead of a percent figure.

### Using Technical Analysis

Many traders often use technical analysis using support and resistance levels to determine where they should enter or exit a position.

You might consider using trend lines or moving averages to find support and resistance levels that will help you determine the best place to take profits and stop loss. In the chart below a trader might be short selling gold, with a stop loss at the 50-period moving average, and a take profit at an upward sloping trend line.

You might consider a trading strategy that uses a momentum oscillator such as the relative strength index (RSI) which produces overbought and oversold levels. This could work in conjunction with support and resistance levels as your risk management triggers.

#### Stop Loss





### Stop Loss



For example, you might buy when the RSI moves into oversold territory and rake profits once it reaches the 50-period moving average. Your stop loss could be an upward sloping trend line or a horizontal trend line.

### Upward Sloping Trend



You might also consider using a Bollinger band strategy. Bollinger bands define the most recent range using volatility (the standard deviation). You can also alter the Bollinger bands for intra-day data which could help you define your take profit and stop loss levels.

## 6.4 How to Short Stocks

You may already be familiar with the practice of shorting a stock from the infamous Game Stop short squeeze in 2021. Usually, shorting a stock goes like this: you identify an overvalued security and wish to take an opposite position. To do this, you do not buy the stock outright, you borrow the stock from your broker and immediately sell it with the expectation that the price will drop.

You eventually need to buy back the stock and then return the shares to your broker, but you anticipate the share price being much lower when it comes time to settle up (which is called covering your short).

If the stock you borrowed declines 10%, you can buy the shares on the open market and return them to your broker. You have now made a 10% profit on the trade — the difference in the price you sold the borrowed shares for and what you paid when returning them to your broker.

Shorting stocks requires a margin account since you need your broker to lend you the shares in the first place. Borrowing shares from your broker involves the same stipulations as borrowing cash, including interest payments.

### Steps to Short Selling a Stock

Here are the basic steps for shorting a stock:

- Check to see if there are shares available to borrow (usually a stock will be marked if it is hard to borrow – HTB – but is different for each broker).
- Place a sell order on the stock you want to short.
- Buy back the shares at a lower price for a profit or at a higher price for a loss.

With LightSpeed, they have a couple of symbols for stock inventory. The picture below shows in the top right corner a red “T”, this indicates there is no inventory and the stock cannot be shorted.

Stop with no inventory

HI 14.84		CHG -1.43		TIER SM1	
LO 13.14		CHG % -9.8%		VOL 3,560.8	
ARCA*	4	13.15	EDGX	2	13.17 13.15 3
BATS	3	13.15	NSDQ	2	13.17 13.15 4
EDGX	3	13.15	ARCA*	9	13.20 13.14 3
NSDQ	3	13.15	BATS	1	13.20 13.17 1
BATY	3	13.03	EDGA	14	13.25 13.16 1
EDGA	1	13.01	BATY	3	13.53 13.17 1
NYSE	1	12.94	NYSE	1	13.90 13.16 4
LULD	1	12.02	LULD	1	14.70 13.16 1
AMEX	2	9.66	BOSX	2	19.45 13.16 2
BOSX	1	0.00	IEXG	1	199999.00 13.16 2
IEXG	1	0.00	PHLX	1	199999.00 13.16 3
					13.16 3

In the picture below you will see a grey “L” in the top right corner. This means you need to request a locate with your broker to see if there are shares available. Sometimes you will have to pay a fee to borrow the shares, especially if they are hard-to-borrow.

Request a locate

Cyclacel Pharmaceuticals, Inc.							
▲ CYCC							
HI	4.46	CHG	-4.42	TIER	SM1	CB	L
LO	4.12	CHG %	-51.15%	VOL	4,834.8	100%	
BATS	1	4.21	NSDQ	2	4.22	4.22	1
EDGX	1	4.21	EDGX	1	4.22	4.22	1
NSDQ	1	4.21	NYSE	1	4.22	4.21	1
ARCA	1	4.19	ARCA	27	4.25	4.21	2
EDGA*	4	4.16	BATS	5	4.25	4.21	1
NATX	1	4.10	EDGA*	1	4.25	4.21	2
NYSE	1	4.10	NATX	1	4.41	4.21	1
BATY	1	3.99	BATY	1	4.51	4.21	2
IEXG	1	3.95	LULD	1	4.63	4.20	1
LULD	1	3.79	BOSX	2	5.21	4.21	1
BOSX	2	3.30	PHLX	2	5.21	4.21	1
						4.21	1

Keep in mind that this can be different from broker to broker so make sure to reach out to their customer service to gain a complete understanding of how their shorting process works.

*Important Note – shorting stocks can ONLY be done in a margin account and if you hold a short position overnight you will be charged interest based on the amount you are borrowing. If you day trade it, you will not be charged interest.*

### **Why It's Important to Be Able to Short Stocks**

To many investors (and some electric car CEOs), short sellers are the worst. They push down stock prices and profit off the misery of others. But short sellers do serve a few important purposes.

For starters, they have a tendency to root out fraud and misconduct – a sentiment Warren Buffett admitted to sharing in a 2006 Berkshire Hathaway shareholders meeting.

Additionally, short sellers provide demand for shares and enhance market liquidity. Buffett had no issues with investors who sold Berkshire Hathaway short since they eventually had to buy the shares to cover.

When shorts misfire, they have to buy back the stock quickly in order to prevent deeper losses. Since stock prices do not have ceilings, losses from short sales can exceed the initial cost of the investment.

When short sellers scramble to cover, it creates a cycle where more short sellers are forced to cover to prevent massive losses – this is called a 'short squeeze'. Short squeezes cause stock prices to rise rapidly as the market for sellers dries up and upward pressure multiplies.

### **Short Selling Example**

Imagine that you want to invest in (and short) companies developing coronavirus treatments. You have a good sense of the biotech industry and you think Pfizer and Gilead will have success with their clinical trials, but Moderna and Inovio Pharmaceuticals will fail.

In this scenario, you would buy 100 shares of Pfizer and Gilead and sell 100 shares of Moderna and Inovio short. There is no minimum or maximum on how long short sellers must wait until covering, but they do need to maintain proper margin levels and pay interest to their broker.

Thankfully, these clinical trials are rapid fire – Moderna, Inovio, and Gilead all flop while Pfizer reports successful results. Moderna and Inovio shares tumble, so you can buy them back on the open market and return them to your broker for a profit.

You sell Gilead for a loss and hold Pfizer for the time being. This trade earns profits on both shorts, a loss on the Gilead investment, and unrealized gains on the Pfizer investment. So, for example, if you sold short Moderna at \$100 a share and bought them back at \$90 that means you made \$10 profit per share (minus commissions, exchange fees, etc.)

# CHAPTER 7 – ADVANCED CONCEPTS

## 7.1 Premarket Trading

Premarket trading occurs during the time period before the stock market opens. Different brokers start allowing premarket trading at different times, but in general day traders can participate in premarket trading between 8:00 a.m. and 9:30 a.m. EST.

The major U.S. stock market exchanges open for normal trading from 9:30 a.m. ET to 4:00 p.m. ET, Monday through Friday unless it is a holiday. Thousands of stock traders are drawn to the exchanges immediately following the opening bell. The stock market is crowded during regular hours of trading which is why some investors have embraced the premarket session, a less crowded time to trade.

However, there are some drawbacks/risks with trading in the premarket which we will cover below.

### **Variations in Premarket Trading Hours**

Premarket trading is the trading session that happens before the normal trading session starts. The session allows both institutional investors and individual traders to trade stocks as early as 4:00 a.m. ET until the market opens at 9:30 a.m. ET.

Brokers can determine the exact timeframe during which premarket trading takes place. One broker may decide to offer trading running from 4:00 a.m. ET to 9:30 a.m. ET, while another may offer it from 6:00 a.m. ET to 9:30 a.m. ET.

For example, TD Ameritrade offers premarket trading from 8:00 a.m. ET to 9:15 a.m. ET, while premarket trading at Scottrade begins from 6:00 a.m. ET to 9:28 a.m. ET. Some brokerage firms do not offer trading in the premarket at all.

Premarket trading occurs on electronic market exchanges, and it has been growing in popularity since 1990 as investors continue to embrace the idea of trading stocks over electronic communication networks.

In the past, only hedge funds, banks, insurance companies, mutual funds, and other institutional investors were allowed to place premarket orders.

### **Premarket Stock Trading**

Before trying to place your first premarket order, it is important to watch premarket trading for some time to understand the entire process and the differences from normal trading hours.

### Premarket Trading Tips

Before jumping into trading during the premarket, make sure you know these rules:

- You can only place limit orders
- Orders are only good for that session, they do not carry over to the regular market session
- Premarket sessions are typically much less liquid
- Premarket orders are matched electronically through ECNs
- Brokers can set their own rules for premarket trading, so make sure to check with them

The platform provided to you by your broker should have tips on how to buy and sell shares during premarket sessions. Premarket orders are not executed as easily as those executed during regular hours.

Brokerage firms only accept limit orders (those directing the firms to sell or buy shares at a given price) in premarket. Your broker will not execute your order if the shares are not trading within the designated limit.

The orders have limitations as well: 25,000 is the maximum number of shares per order. Brokers only honor premarket orders for the precise session in which investors placed them.

#### Premarket Trading Example

There is no guarantee that premarket orders are placed before the opening bell if trading activity is significantly low, but it is certain that they are not carried over into the normal trading hours. The procedure and cost of trading stocks during premarket hours also depends on the broker.

### Brokers

TD Ameritrade simply charges their regular commissions to trade shares in premarket sessions. Others, such as E\*TRADE, charge an extra \$0.005 a share for pre-market trades. Brokers also often provide particular premarket policies that are usually available on their websites.

Remember that the premarket trend and price range can take a different course after the opening bell. Getting caught up in a position that backfires ferociously after the open is one of the worst situations.

There tend to be many stop orders during premarket session that are ready to trigger prices after market opens.

The orders can result in tidal waves of momentum against existing positions, which is why investors should close their positions before opening the bell.

As you can see in the Twitter (NASDAQ: TWTR) chart below, premarket volume is very light. The only thing that can change that is news during off market hours like buyouts, mergers and most commonly earnings.



It is very risky to trade the premarket when volume is this light because you are susceptible to illiquidity which can make it very hard to exit a position without a lot of slippage.

#### Premarket Trading after earnings



Above is an example of premarket trading after earnings were released. You can see there is significantly more volume (although still quite less than normal market hours) as traders are reacting to the earnings news.

If you are new to trading you should avoid trading during this time. It's just too risky and there is plenty of opportunity during normal market hours to capitalize on.

#### Risks Involved

Risks inherent in the premarket:

- Illiquidity, very light volume
- Limit orders only, can't bail with market order
- Potential for extreme volatility
- Wider spreads

Investors with online trading accounts can buy stocks in premarket hours if their brokerage firms provide this option.

But even though premarket trading allows investors to trade shares as early as 4:00 a.m. ET, there are less sellers and buyers during the session.

Most traders are usually sound asleep, so even small orders can distort prices.

Sellers and buyers of most stocks can trade speedily with each other during regular trading sessions, unlike in premarket hours when investors experience less trading activity thus making it challenging to execute some of their orders.

Less trading volume might also mean bigger spreads between the ask and bid prices.

Therefore, investors could find it more grueling to get as favorable share prices as they could have during normal trading sessions.

Limited trading activity also means that investors may find greater price fluctuations than they would have seen during regular hours of trading.

Despite the risks associated with premarket trading, this type of trading is beginning to attract keen interest from investors.

Premarket trading allows investors to respond fast to major events and news, such as political turmoil overseas or sudden corporate misfortunes that are affecting a stock, even before the market opens.

## 7.2 How to Build a Watchlist

Building a watchlist of tickers that you are interested in trading for the day is an essential part of a profitable trading process.

A watchlist is simply a short-list of stocks that meet or might meet your criteria for a profitable trading setup.

While your daily watchlist should evolve throughout the trading day, before the market even opens, you should have a healthy list of tickers on to watch for emerging setups.

### Step One: Define What You're Looking For

The first step in your trading idea generation process is to be clear about which setups you would like to trade. You know what they say about generalists, “a jack of all trades, master of none.”

Pick your two or three highest conviction setups to scan the market for setups and focus on those.

Whether that is a bull flag, failed breakout, or test of support or resistance, write your setups down and be clear about what they are, how you trade them, and how you identify them in your scanning process.

For example, if we only trade pullbacks in uptrends, here is how we might write out our basic trade plan:

- Setup: Trend pullback
- Criteria: Series of higher highs and higher lows with strong momentum and volume.
- Warning signs: Do not enter the trade on a dramatic pullback, this could be the sign of a reversal
- Green flags: Look for a shallow pullback into a consolidation on light volume and momentum.
- Exit criteria: Use a multiple of the time-frame's ATR or the recent swing low as a stop loss, depending on the market conditions.

Now we have a concrete idea of what we are looking for in the screener or scanner.

This transforms your idea generation process from just “looking for interesting charts” to looking for a particular situation and disregarding all the other charts.



## Step Two: Creating a Screen or Scan

This is where the process will begin to differ depending on your trading style.

If you are a short-term day trader, making trades off the 1-minute or 3-minute chart, you're likely using a real-time stock scanner like our proprietary scanner available to Warrior Pro students below.

Real-time Stock Scanner

Symbol / News	Price	Volume Today	Float	Relative Volume(Daily)	Relative Volume(5 min %)	Gap(%)	Change From Close(%)	ATR - 14 Day	Short Interest
ZCMD	2.60	133.52M	12.99M	1,044.75	12,406.61	86.81	42.95	5.85	11.12K
HUGE	2.38	59.32M	30.97M	30.52	359.12	38.15	15.02	9.83	284.17K
IMTX	14.50	36.80M	62.91M	243.58	4,342.40	33.28	24.68	3.85	1.01M
SSKN	1.92	18.74M	15.89M	30.57	300.58	24.34	1.59	9.62	133.86K
CVU	5.09	35.40M	10.80M	760.64	2,255.07	23.77	-4.30	4.38	8.88K
AREC	4.71	73.40M	39.39M	32.01	979.95	21.83	10.56	14.34	785.93K
WLFC	44.20	94.75K	2.57M	13.04	1,031.25	12.50	25.04	4.33	26.02K
CFLC	15.11	43.95K	7.65M	1.16	21.31	12.29	9.89	6.57	6.80K
ONTX	1.22	46.93M	235.64M	1.78	76.22	12.15	13.55	10.54	18.24M
ACNB	29.93	5.90K	8.42M	0.54	57.23	10.77	0.77	4.53	74.14K
INXP	1.50	106.40M	323.70M	7.15	468.72	10.53	17.72	8.28	1.68M
PUYI	5.50	3.23M	60.31M	356.30	6,265.85	8.76	25.82	3.52	28.97K
IGIC	7.56	4.52K	20.05M	0.23	0.00	8.16	2.88	3.59	236.84K
VEL	9.32	62.09K	8.35M	3.93	32.83	7.93	7.13	5.89	115.56K
CLGN	13.20	20.74K	9.29M	0.22	0.00	7.56	0.76	11.37	2.98K
SVRA	2.29	21.79M	110.81M	2.70	230.59	7.32	11.76	13.23	904.27K
TSHA	25.10	41.83K	16.34M	1.30	199.17	7.04	-2.33	11.41	1.30M
JVA	5.29	150.45K	5.25M	1.51	445.80	7.04	6.44	6.92	35.25K
ADCT	29.52	574.77K	27.02M	2.06	263.88	6.56	0.92	8.29	4.44M
NISN	16.79	74.76K	7.29M	1.30	148.35	6.20	1.14	8.35	488.83K
NBRV	2.07	12.66M	34.70M	4.06	270.92	6.03	7.81	10.96	1.62M
VLON	5.50	74.24K	4.29M	1.35	0.00	5.87	0.85	8.30	11.47K

If you hold your positions for longer, even overnight, you probably utilize a screener like FinViz.

The specificity of your scanning criteria will ultimately depend on your preferences. The more specific you are, the fewer results that the scanner will yield, but those results are probably more accurate.

On the other hand, with broader criteria, you are much less likely to miss out on a great opportunity that tighter criteria missed.

Let's take some example criteria for my hypothetical trend pullback setup. Perhaps we prefer to trade low-float stocks because of the more extreme price moves they make.

- Market Cap < \$2B
- Float < 50M shares
- Price > \$1.00
- Average Volume > 100K shares/day

Just with the above descriptive criteria, we can narrow FinViz's 7,546 stock universe down to only 266 stocks.

Now let's look at the differences between broad and specific screens for this strategy.

Here is an example of a pretty [broad screen](#) that yields 56 stocks, a manageable list of charts to quickly cycle through for adding to your watchlist.

- Price > 20-day simple moving average
- Price 0-5% below 50-day high
- Change: down on the day

On the other hand, if we wanted to pinpoint trend pullbacks more accurately, we would have to code our own solution.

For example, perhaps a specific mechanical criterion in our hypothetical trend pullback setup was the following:

- Price > 20-day simple moving average
- Price has closed above 5-day simple moving average 7+ days in a row, but closed below it today

While the above screen has fewer criteria, the criteria are much more specifically targeting a pullback and will yield fewer results.

However, most trend pullback trades will not meet these criteria, so we would miss out on several potential opportunities. This is a weighing process in which you have to test yourself and come to your own conclusions.

Using the pseudocode tools provided by trading platforms like thinkorswim, TradeStation, TradingView, or NinjaTrader, you could probably learn to code a script that screens for your specific setup within a few hours.

#### Chart Setup



For example, there is an online community for ThinkScript users called UseThinkScript, featuring several tutorials and forums on writing custom thinkorswim scripts.

#### Step Three: Reviewing Your Screen Results

Here is where we actually build your watchlist.

Now that you have screened the market for opportunities and have a list of stocks that potentially meet your trade setup's criteria, it is time to examine each chart and each setup candidate to your watchlist.

Ross has used TradingView and prefers to use a two-pane chart setup to view both the daily chart and the 15-minute chart to see how the action is unfolding on both the higher and lower time frames.

Depending on your trading time frame, you should manipulate this.

For example, a 1-minute chart trader should have the 1-minute chart in one pane, and perhaps the 30-minute chart as the higher time-frame.

The use of multiple time frames is essential. You have to avoid getting into a lower time frame "tunnel vision." In many cases, traders will try to short against resistance on a lower time frame like a 5-minute chart, while the daily chart is in a strong uptrend.

It helps to know where the longer-term momentum and volume is flowing.

Here's an example of a favorable chart setup for scanning through a watchlist:

Many screeners and scanners allow you to export your results into a CSV or TXT file with the list of tickers, which you can import into your charting platform for quick viewing.

For example, here's where to export your list of tickers on FinViz, on the bottom right of your screen results table:

3.73	15.99	-0.93%	340,449
7.84	11.49	-0.09%	94,960
14.45	18.23	-1.67%	86,910
-	37.42	-0.69%	83,473
7.22	46.13	-0.80%	284,345

export

Once you have analyzed each chart and added the potential setup opportunities to a watchlist, it is time to move onto the next step.

### Step Five: Analyzing Your Watchlist

By this point, you have done the following:

- Outlined your trade setup
- Created scan/screen criteria and screened the market for opportunities
- Observed each chart from your screen results
- Built a watchlist of interesting tickers from the results

Now is the time where we analyze each ticker from our watchlist in more detail, looking for factors like the following:

- How strong is the potential setup opportunity relative to the average setup that you trade?
- News and catalysts (PR, earnings, dividends, capital raises, analyst upgrades/downgrades, and conferences are examples).
- Look for key levels on the chart, including support and resistance, recent swing highs/lows, and potential entries and stop losses.

## 7.3 Understanding Short Squeezes

A short squeeze is a trading term that happens when a stock that is heavily shorted all of a sudden gets positive news or some kind of catalyst which brings a lot of new buyers into the stock.

When this happens, the stock is being bought up and the shorts are now forced to cover their positions (getting squeezed out), which then results in more buying that can cause a stock to go up very quickly and by a lot.

You can find short information on stocks through most financial sites like Yahoo and Google Finance. They list the short interest and the percentage short of the float along with the short interest ratio.

The short interest ratio (SIR) measures the amount of shares short divided by the average daily trading volume.

So if the SIR is 3, then that means it would take 3 days at the average volume levels for shorts to buy back their shares. However, when a squeeze is underway the volume is usually increased by a lot so shorts could cover more quickly.

The important part to remember is that when a short squeeze is underway, you do not want to be caught on the wrong side of it.

### Why They Happen

Short squeezes often happen at the end of deep slumps, like the one we saw in March as coronavirus fears took hold. At such points, most traders have already sold shares.

"In general, short squeezes are precipitated by large mark-to-market losses due to upward price movements of the shorted stock and/or high stock borrow financing rates which make it unprofitable to stay in trades for long periods of time," says analyst Ihor Dusaniwsky of data firm S3 Partners.

## Short Squeeze, Dryships

**Short Squeeze Examples**

What also happens is new buyers are alerted when prices start to move which even further magnifies the buying and could cause a stock to go parabolic.

**Dryships**

A good example of this was Dryships (\$DRYS) that ran up over 2,000% following the news that Trump won the election.

This stock was heavily shorted but with the surprise win, shares were back in favor and buyers drove the stock up causing shorts to cover and the stock to shoot up. Shares were trading below \$5 per share but over the span of just four days, shares breached \$100 per share!

**Volkswagen**

Here is an example of a short squeeze: In midst of the 2008 financial crisis something unexpected happened. German automaker Volkswagen was heading for bankruptcy but ended up becoming the world's most valuable company for one, brief day.

Back then, investors and hedge including Elliott Management Corp and D.E. Shaw had shorted Volkswagen shares. However, these investors were not aware that Porsche SE had been quietly buying almost all freely traded ordinary Volkswagen shares in an attempt to take over the company.

In March 2008, Porsche SE denied claims that it planned to take over Volkswagen. Several months later the company disclosed it owned 42.6% of Volkswagen freely traded shares as well as controlling another 31.5% through financial instruments.

## Short Squeeze, Volkswagen



Then came the squeeze. When Porsche disclosed it had amassed control of roughly 75% of the shares in Volkswagen, short covering reached proper squeeze level, pushing Volkswagen shares from a low just above €200 on Oct. 19 to an absolute peak of €1,005 on Oct. 23.

This short squeeze briefly made the Wolfsburg-based automaker to become the most valuable company in the world, worth more by market capitalization than Exxon Mobil.

Investors and hedge funds that had shorted the stock were caught off guard and suffered massive losses, and some ended up taking legal action against Porsche SE.

The sudden news, combined with a large number of short positions and a very small float, caused the stock to skyrocket within a short period as investors desperately tried to cover their positions.

“It was one of the most painful days in my career,” Arndt Ellinghorst, then at Credit Suisse, but now a Senior Managing Director at Evercore ISI says, according to the Financial Times. “The pain among investors was unparalleled versus any other market scenario that we have encountered.”

### Tesla

Another good example of a short-squeeze is Tesla (NASDAQ: TSLA), which has squeezed traders by a year-long bull run that has lifted the stock from \$224 last year to above \$1,800 as demand for its electric vehicles continues to improve.

Tesla has been a target of short-sellers, but the stock has recorded huge gains, prompting the company to issue a 5-for-1 stock split. For months, short-sellers have lost billions at the hands of the Elon Musk-led company.

## Short Squeeze, Dryships

**Tips for Trading a Short Squeeze**

As you can see from the examples above, short squeezes are one of the most powerful short-term market catalysts and can generate huge surges in share price. Short squeezes can happen very quickly and can move the stock more dramatically than a normal rally, causing huge losses if you are not paying attention.

What happens is new buyers are alerted when prices start to move which even further magnifies the buying and could cause a stock to go parabolic.

A good way to avoid being caught in a short squeeze is to always place hard stops on your short positions, especially if you are holding them overnight.

It is also important to note that not all rushes to buy back shares that have been shorted are sparked by positive news.

Sometimes a rush happens because the prime broker (the part of a bank that is tasked with stock lending) has demanded the return of the borrowed shares.

You need to familiarize yourself with the short

interest ratio (SIR), which measures the number of shares short divided by the average daily trading volume of the stock that interests you.

**Using a Short Squeeze to Your Advantage**

A squeeze can be of great benefit to those traders who hold so-called long-positions. For instance, let's say you are looking at a flawed and poor performing company that underperforms, lacks funding, has inadequate management, and is heavily-short.

Now imagine the company publishes a positive press release and its share-price rises significantly to more than \$120 apiece within just a few days. In this position, you are highly likely to profit from short sellers who are betting against the stock because the company.

When the price of the stock soars, many short sellers will start to exit their position and buy shares to cover. It is at this particular time that you could profit from the actions of these traders.

## 7.4 Mastering Emotions

In financial markets dominated by vast amounts of data, sophisticated analytical programs and quantitative strategies, concerns about the psychological aspect of trading may seem quaint.

However, in reality an understanding of trading psychology has never been more important.

It is precisely when we forget to question our motivations and emotional state that we become vulnerable to poor decision-making.

While the digitization of trading may have transformed many aspects of the profession, little has changed in the realm of trading psychology.

The old lessons learned the hard way over decades of experience are still as applicable today as they were when they were first learned. In this guide we will briefly examine the four strongest emotions in trading psychology:

1. FOMO
2. Fear
3. Greed
4. Hope

### How The Fear of Missing Out (FOMO) Can Ruin Judgement

The fear of missing out usually occurs when a stock is making a big move and you missed it. This can lead to chasing an entry which is never a good trading decision because you will end up with a poor entry price and as you are caught up in the fear of missing out you forget to manage your trade and risk.

The fear of missing out is driven by a desire to be a part of a good thing, even when all signs suggest that it is not a wise investment. FOMO is so pernicious because we see other people succeeding, even if they are taking unjustifiable risks to do so, and we have a natural urge to join in.

The more wildly successful other people are, which is usually directly correlated with the amount of risk they are taking on, the stronger the urge to join in.

FOMO is usually harder for new traders to grasp because they haven't been burned as many times as someone who has been trading the markets for a while.

The best way to deal with FOMO is to have rules in place and if you break them then you need to have some kind of punishment like no trading for the rest of the day.

You cannot make trading decisions based on emotions no matter how much money you see other traders making on a crazy run. There will always be other opportunities so stick to your rules!

### No Fear!

Fear is a broad sense of unjustified panic that occurs when market participants as a whole take a generally pessimistic view toward the financial, economic and political future.

Under a climate of fear, traders focus on and amplify any bad news, and are quick to close out long positions or open new short positions.

A climate of fear in the markets is self-reinforcing: as more people become afraid and sell, the greater the overall sense of fear becomes.

Under a climate of fear it is very difficult for an individual investor to make rational investing decisions based on reasonable expectations of the behavior of the market as a whole.

Fear is common in traders because we don't know what is going to happen after we enter a trade.

We have an idea of what will happen but we don't know this with 100% certainty and when you have a lot of money on the line and don't know what is going to happen, it can cause fear and anxiety.

A good way to counterbalance fear is by trading within your means and setting an acceptable loss amount. This way you know, before you even enter the trade, that you are only risking a certain amount.

This takes some of the uncertainty out of the trading process because now we know what is on the line. Every time Ross enters a trade, he tells himself that he may lose money and that's OK, just don't lose more than his predetermined amount!

Another way fear gets in our way is when we are trading with too much size that it makes us uncomfortable and fearful of losing too much money or even worse, blowing up our account. That's why sizing is so important.

Start off small and gradually work yourself up to larger size. Just because you had a solid month doesn't mean you should go from trade 500 shares to 5,000 shares.

### **Greed Is Good...Or Is It?**

Greed is the other side of the coin to fear. Greed is also similar to the fear of missing out, but more focused on a broader outlook instead of some smaller segment of the market.

Under emotions of greed, any economic, political and financial news is viewed as extremely optimistic. And similarly, bad news is ignored or waved-away as unimportant. Greed creates a self-reinforcing cycle of rising asset prices and positive outlooks.

Traders become so accustomed to rising asset prices, that they begin to ignore obvious signs of risk or negative outcomes.

Trying to squeeze every last penny out of a move is a surefire way to give up profits and even lose money. The best way to handle greed is just like how you would handle fear.

Set predetermined profit targets and when they hit, cash in! It's not rocket science you just have to be disciplined enough to follow your rules!

### **Hope**

Hope in trading psychology is the unrealistic expectation of something good happening.

Traders can be hopeful at the height of a gain or the lows of a loss, but in all cases their desire for something to happen trumps their ability to rationally foresee outcomes.

Hope is a very natural human emotion, particularly in matters involving chance, risk and odds.

The mere desire to want to believe in something is often enough to cloud our judgment and lead us to make poor decisions based on the hope that things will turn our way.

### **How to Master Your Emotions**

While mastering your emotions in trading is a never-ending battle, the basic framework for tackling the problem is actually quite simple.

Your emotions run wild when they are given the space to dominate your thinking, which is why professional traders always use a strict trading system that helps to contextualize their decisions and keep their emotions in check.

Traders can rely on a tried and tested trading strategy to help them gauge and control their emotional state.

A regimented trading system offers an anchor of proven reason that traders can rely upon when attempting to interpret market information and their own emotions.

Any effective trading strategy is composed of various rules that help to frame all investment decisions.



**Rules for Identifying Trades**

The rules for identifying trades are useful for keeping traders on track and focused on those areas where their knowledge and experience gives them an advantage.

These rules are particularly useful when it comes to controlling for greed and the fear of missing out, as it keeps traders in a safe area that they understand instead of chasing profits in asset classes that are alien to them.

You need to be like a robot when trading. You have to be systematic and dispassionate. Rely on your trading process and rules to be your guidelines for success.

**Rules for Executing Trades**

The actual opening and closing of positions is always the most difficult and stressful aspect of trading. Even the most well-researched trades can go poorly if the trader is overly emotional when executing trades.

Having a set of strict rules for how and when to execute trades is essential to maximizing the profits from good ideas and minimizing the losses from trades gone wrong.

An extensive use of advanced orders, such as profit-takers and stop orders, is an important element of a strong trade execution system.

When Ross first started trading, if he broke any of his rules then he would have to stop trading for the day and make himself review his trading process. Eventually he broke his rules less and his trading improved.

Now every once and a while Ross will break a rule but he has the experience and know-how to correct it and get back on track.

**Rules After You Trade**

Whether you just met your weekly profit target in one trade or wiped out two day's worth of work, it is always wise to have a system for cooling down after one trade before moving on to the next.

Every trade will color your emotional state, so the best traders know how to cleanse themselves of the lingering emotions of the last trade before moving on to the next one.

**Trading Psychology: Master Your Emotions**

While many traders may be technically skilled, the greatest traders are masters of personal discipline first and trading knowledge second.

A knowledge of the common pitfalls in trading psychology and a strict set of rules for trading are both essential to achieving lasting success in trading.

With these in place, it is simply a matter of putting in the time and effort to become the master of your emotions and a master of trading.

### Some Concluding Thoughts

As you finish this ebook, we hope that you have learned a lot, but also recognize there is much more to be learned before risking money in the market. If you are serious about day trading, then you need to know that becoming a successful trader will not happen overnight. And there is no guarantee of success.

Ross often refers to day trading as the hardest “easy” job in the world. Day trading is easy in the sense that you are your own boss—you make your own schedule, set your own goals, and determine your approach to each day. However becoming successful at trading is not easy—there is real financial risk in every trade. Day trading is hard because it requires self-discipline and self-awareness, especially when it comes to emotions. It took Ross over ten years to reach the level of success that he has today as a consistently profitable trader. Ross started Warrior Trading to help new traders avoid some of the mistakes that he made along the way and to help them accelerate their trading education.

Warrior Trading provides tools and support for every step in the journey to becoming a day trader. It starts with an educational platform where new traders can learn the fundamentals of trading in our courses and then hone their skills in our simulator without financial risk. Once traders are ready to trade with real money, they’ll find an entire array of tools at their disposal like our Stock Scanners. And experienced traders will find a community in our Live Trading Chat Room where they can celebrate success and learn from the sting of a loss.

If you are interested in learning about the tools and support that Warrior Trading students can access then you can register for our free workshop that is hosted every day at 1pm EST. This workshop is a great way to get a better sense of our course content and Ross’s teaching style.


After attending the workshop, you will have a chance to enroll in Warrior Pro or Warrior Starter at a special, discounted price.



### The Warrior Pro course provides you access to:

- Warrior Pro Classes. A class syllabus is available [View class syllabus](#)
- Live Trading Chat Rooms
- Stock Scanners (Gappers, High of Day Momentum, and more)
- Mentor sessions (6x weekly, with recordings available)
- Real-Time Trading Simulator add-on

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