HOW TO DAY TRADE FOR A LIVING

Trading Strategies & Tactics to Consistently Earn Passive Income in Any Market – Stocks, Forex, Cryptocurrency, or Options

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Introduction

Thank you for purchasing, "How to Day Trade for a Living. Trading Strategies & Tactics to Consistently Earn Passive Income in Any Market – Stocks, Forex, Cryptocurrency, or Options". If you are reading this, it is because you are serious about potentially making a living out of day trading and investing in financial assets.

I am sure that you have heard stories about folks who struck it rich while investing in stocks. But it is not just about investing in stocks, but it is about knowing *how* to invest in stocks. In addition, many folks don't really know where to begin.

That is why we are here. We are here to discuss where you can begin, cover some ground rules, and drill down on the specifics of day trading and passive investing. So, if you are truly serious about going down this path, then buckle in because we have a lot to cover.

First of all, let's define who this book is for.

This book is intended for the average individual, an average Joe, if you will, who is looking to put their money to work. We are not talking about millions of dollars. We are not talking about rubbing elbows with the Fortune 500. We are talking about regular hardworking folks who want to take their savings and watch them grow.

This book was written with the average investor in mind. We are not talking about professional investors who have a slew of accountants and advisors. We are talking about the folks who are fed up with having their income potential limited by stagnant wages or lack of opportunities.

This book is for those folks who have an entrepreneurial spirit and an open mind.

That is crucial for this book. If you are able to keep an open mind, then I assure you that you will make considerable headway. Otherwise, I believe you will not truly benefit from all of the information contained in this tome.

So please, keep an open mind at all times. Try your best to think outside the box. In doing so, you will be making my job a lot easier. My message won't be falling on deaf ears. Rather, it will be like preaching to the choir.

The following pages contain a combination of theory and practice. We won't be dwelling too much on numbers and theories. While theoretical underpinnings are vital in understanding the way financial markets work, it is not the only thing.

As such, I would like to share my experience with you so that you can benefit from my successes and failures. Furthermore, I firmly believe that the information contained in this book will help you be on your way toward achieving that coveted dream of financial security and independence.

I know, it might sound like a pipe dream now. But trust me, with a little luck and lots of elbow grease, you will begin to reap the rewards of a prudent and sound financial strategy. You won't find yourself groping in the dark trying to hit a home run.

This is about building multiple sources of income that will enable you to transform your life. By generating a steady flow of passive income, you will be able to take control of your life.

Now, you might still go into work every day, but you won't be doing it because you have no other choice; you'll be doing it because you want to. And if something should happen and you chose to leave your job, well, you wouldn't miss a beat.

As I said, that might seem like a dream now. It might not seem like something realistic. But I can assure you that others have done it. There are other folks out there who have achieved their goals and their dreams.

This isn't some fantasy nor is it anything close to scam.

As you will learn in the following pages, the road to success outline in this book is based on sound strategy and understanding of the way financial markets work. After all, how could you win a game whose rules you do not understand?

Do you see my point?

None of us can win at this game if we don't know the rule. So, what ends up happening is that we all get caught up in the momentum and flow of the way without really understanding why the things that happen actually happen.

But when you understand the rules of the game, things are much different.

When you understand the rules, the playing field is level all of a sudden.

Consequently, you will go from being on the sidelines, from sitting on the bench, or from standing in the bleachers to getting into the game to eventually becoming an all-star.

Sure, it all takes time and effort. But if others could do it, so can you.

Therefore, please treat this book as a guide. Please see it as a roadmap. In it, you will find several ways in which you can get started on becoming financially independent while being smart about your money and your investments.

Of course, we need that elbow grease, but this book isn't about working harder and harder; it is about being smarter. Naturally, being smarter means that you will have to put into some extra hours towards learning and honing your skills. But trust me, it will be totally worth it.

So, let's get started. I am sure that you will find plenty of useful information from the get-go. You will be able to find relevant information and insights which will help you build your own vision and your own understanding of the way the game is meant to be played.

As you uncover the rules, tips, and strategies, you will no longer be guessing as to why things happen. You will even be able to anticipate the events before they happen.

Buckle up, we have a lot to talk. So, let's get started on that roadmap to your independence and happiness. It won't be easy, but we can try out best to make it a little bit easier.

1

What you should know about day trading

Day trading is a rather recent phenomenon.

In the olden days, stock trading took place on the actual trading floor or over the phone. That might seem very rudimentary now. But, those where the roots of the financial markets we have some to know today.

With the advent of the digital age, it was only logical that stock trading would take place with the aid of computers. In fact, computer-based trading now represents one of the biggest reasons why financial markets have become so volatile.

As a matter of fact, computer-based trading represents a considerable amount of the trading volume that happens on a daily basis. While you are still able to call your broker up to place an order, the fact of the matter is that virtually every type of transaction is automated.

That is an important point to bear in mind since automated trading is what has enabled the emergence of the day trader. As such, day trading is a phenomenon which has enabled countless individuals to take control of their own trading strategies and develop their own investment strategy.

Consequently, we need to define what day trading is and how this might be a good option for you.

Definition of day trading

When you think of equities markets (stocks and bonds), I am sure you get images of Hollywood films in which bloodthirsty stock brokers are engaging in high-risk, high-leverage deals in which they put their own livelihood, and that of their investors, in harm's way.

Many of these films have glorified the irresponsible practices that stock brokers have engaged in throughout the history of financial markets. Some have made it big, but countless others have been burned to the ground.

So, the role of a stock broker is to take investors' money and put it to work in the stock market. Now, you generally hear the term "stock market" commonly used as an umbrella term to refer to financial markets in general. As you will see in this chapter, the more appropriate term to be used in this case should be "financial markets" as there are several different types of markets.

In that regard, the stock market is where shares of a publicly traded company are bought and sold on a daily basis. When I say, "daily basis" I mean Monday through Friday as all markets break for the weekend. As a day trader, this is something that you need to keep in mind as Friday afternoon should be the time in which you are powering down. Later on, we will discuss why this is a fundamental tenet of day trading.

Since the United States, and virtually all nations that have mature stock markets, have regulations in place which limit the amount of participation an average investor can have in the stock market, virtually all trading is done through brokerage firms.

I am sure that you have the seen the ads on television for these firms (I will not name names in order to avoid it appearing that I am endorsing anyone). These firms offer a myriad of products and funds in which they can place their money. These funds are managed by individual stock brokers, or money managers, who are duly licensed.

These brokers are the ones who actually place the trades and make the deals happen on a daily basis. It should be noted that a licensed broker has something which is known as a "fiduciary responsibility". This means that their responsibility is to make money for their clients and not for themselves.

You might be scoffing at that last point, but that is what's on the book. Whether they actually do that, is up to the financial institution and the brokers themselves. However, if a rogue broker goes out and does their own thing, the chances of this stock broker landing in jail are almost assured.

In addition, financial institutions will not risk having their licensed revoked, and even worse, having their customers bail on them because it has been proven that they are irresponsible in the management of their customer's money.

I would encourage you to watch the Hollywood film "Wall Street". This film depicts the irresponsible behavior that rogue traders engage in. One of the characters in the films ends up in jail while some of the other characters get away scot-free. If you believe that it is just a film and it is meant for entertainment purposes, I would like to tell you that similar events have happened in real life. So, you shouldn't be surprised to learn that this film is not too distant from reality.

Now, you might be asking yourself what this has to do with day trading.

Well, it has everything to do with day trading.

You see, with the advent of computer-based trading and the internet, brokerage firms caught on to one of their customers' biggest requests: to be given access to trading stocks themselves.

This is an enormous shift if the traditional paradigm of stock trading. The almighty stock broker, that often-glorified character, has now taken a secondary role as anyone can open their own account and trade for themselves.

And while it is a simple as opening an account and getting started, actually being successful at it isn't quite that simple. In fact, that it why we are here. We are here to learn about what day trading is that the tips and tricks that can help you become successful at it.

As such, day traders are individual investors, who play with their own money (some of the more valiant day traders will take their friends' and family's money, too), will place their own trades and choose which companies they will invest in.

Thus, it is crucial to understand how markets work, how the pricing of stocks works and how you can make money from these trades. These are the types of things which stock brokers go to school to learn. However, you can learn them, too. It is not some occult science which only a privileged few had access to. In the past, it was like that, but not anymore. The internet has blown the doors off this type of secrecy and hidden agenda.

Notwithstanding, an individual investor who opens their own account and does their own trading has total control of what is traded, when and at what price points. Now, the defining characteristic of a day trader is that they open and close their positions within the same trading day. That means that they will not leave any open positions after the close of the trading day.

As such, if a day trader starts out their trading day with $100, they will end their day with the same $100, plus some additional cash from the day's profits… hopefully. So that means that the day trader starts with cash and ends with cash.

Of course, you can keep open positions for far longer than that, but then having open positions for longer periods of time refers to other types of trading. Consequently, day traders live from day to day. While they are keenly focused on what may or may not happen down the road, they are intent on making very short-time trades and profits.

As we deepen our discussion, you will learn why opening and closing positions within the same trading day is both crucial and useful as it reduces the overall risk of investors.

The difference of day trading vs other types of trading

Since we have established that day traders, by definition, open and close their positions in the same trading day, it is important to note that there are other types of traders out there.

In the end, the type of trading strategy boils down to the underlying philosophy of that investor. As such, it is important for you to understand what you really hope to get out of your investment strategy.

Thus, are you looking to make as much profit as you can, are you thinking about a long-term strategy, or are you simply content with getting a return without being actively involved in any of the transactions?

The answer to these questions will determine what approach you will take in your strategy and the type of transactions that you will conduct.

But first, a word of caution: I would highly advise you to avoid betting the farm on any deal. I know that it is tempting to try to hit a home run. Sure, there are cases where you have heard about folks who have smoked a grand slam to deep center. But those trades are few and far between. Day trading isn't the sexiest approach, but it is certainly an approach which will help you win most of the time.

Consequently, betting the farm opens the door for an increased level of risk that I would never advise you to take. Even the safest trade has an inherent level of risk. What this implies is that if you are not careful and do your due diligence, you will be asking for trouble.

That being said, it is important to understand other types of traders out there. While you might not marry one type of trading, you could alter your overall trading strategy so that you can incorporate various approaches as per your own circumstances.

- **Swing traders**

Swing traders are folks who act pretty much the same way as day traders do, except that these folks will leave open position overnight, or even for a couple of days. However, they are sure to cash out before markets close on Friday evening as leaving open positions over the weekend can be a recipe for trouble.

In essence, the risk of leaving open positions overnight lies in the fact that financial markets are very psychological. What that means is that if something happens overnight, you could get hammered by the results of events in other parts of the world.

At the time of writing this book, one case that rocked a major corporation what the unfortunate crash of Boeing aircraft in various parts of the world. These accidents happened overnight (for North America), in other parts of the world.

So, investors who held stock in Boeing woke up one day to the news of the unfortunate accidents. In addition to the tragic loss of life, Boeing took a serious hit as the transportation agencies of just about every developed nation in the world ordered the grounding of their airplanes.

This did serious damage to the stock of this corporation. Its share price dropped from a high of $439 per share to a low of $362 per share. Unless you were somehow shorting the stock (betting that it would lose value), you most likely took a hit. Boeing's stock has rebounded somewhat but the damage has been done.

The damage main lies in the loss of investor confidence. This is the most critical point when looking into stock prices as a loss of investor confidence can tank a company's stock in a very short period of time. In some cases, stocks have tanked in a matter of hours.

The previous example illustrates how dangerous it could be to leave open positions overnight. So, if you plan to hold on to stocks for extended periods of time, then you need to be sure that this stock is going to remain stable.

- **Short-term trading**

Short-term trading differs from swing and day trading in that investors will hold positions for a longer period of time, for example, a couple of weeks, but never longer than a month. Since a lot can happen in a very short period of time, investors are generally wary of holding onto their positions for extended periods of time.

Also, short-term traders deal with more than just stocks. They dabble in bonds, commodities and even derivatives such as options. These additional financial instruments require more experience and proficiency in investing. So, I would not encourage you to trade these types of instruments until you are perfectly comfortable with the ins and outs of stock trading.

- **Value trading**

Value traders are consistently looking for hidden gems. These gems consist in company's whose share value is below its book value. As such, the company can be considered to be undervalued and might be poised for a rebound.

How does this work?

In essence, a company's book value is its equity divided by the number of outstanding shares. In this case, the market value of each share is below the book value. For example, ABC's company's book value is $10 per share while its market value sits at $9.50 per share.

So, the investor is betting on the stock rebounding and gaining in value. While it is not quite that simple, value investing can pay off good profits when done right.

- **Long-term trading**

Long-term traders are those who focus on markets trends over extended periods of time. For example, this could be over periods of several weeks to several months.

If you are planning on being a casual day trader, I would not advise you to hold on to positions for such long periods of time. If anything, I would advise you to act more like a swing trader. As with the Boeing example, anything can happen in the blink of an eye. So, it is certainly better to be cautious than to be a maverick.

But if long-term investing is more appealing to you, then take care in ensuring that you are betting on solid companies, solid investments and you are sure that you have a good idea of where market trends are heading.

- **Passive investing**

This is one of the most common types of investment strategies. Given the fact that you are reading this book, I will assume you are not too keen on this type of investing.

Passive investors are the kind that buy into mutual funds and 401Ks. The point of being a passive investor is that you entrust your money to a stock broker and let them work their magic. All you do is check your portfolio whenever you get your statement. Whether you make or lose, money is not in your control. You are essentially along for the ride.

On the whole. Folks make money over longer periods of time though their returns may not be spectacular. Nevertheless, you must have a high degree of trust in the corporation which you have given your money to.

As you can see, there are various types of investing. While you don't have to marry just one type of investing philosophy, it is certainly recommended for you to fully comprehend one type of strategy before trying out other kinds. This will enable you to fully understand where you are headed with your investments. Otherwise, you run the risk of being all over the place thereby missing out on important opportunities.

Choosing a brokerage account

Earlier, we mentioned that it is financial institutions which are licensed to conduct trading on officially sanctioned stock exchanges.

This is a very important point as countries which have their own stock exchanges will have some type of legislation which provides legal backing to its operations. As such, duly licensed financial institutions become brokerage firms. These are the institutions which are authorized to conduct trading for themselves and on behalf of their clients.

The individual people that actually conduct the trades are known as “stock brokers”. Based on those definitions, day traders essentially cut out the middleman by doing business directly with the brokerage firm. Bear in mind that you cannot purchase stock from a publicly traded company yourself. You must do this through a licensed brokerage firm. However, there is no regulation saying that you must pay a stock broker to make trades for you.

In fact, a stock broker acts much the same way an attorney does. For instance, you could represent yourself in court if you really wanted to though it is not advisable. But if you really wanted to, for whatever reason, there is nothing stopping you from doing so.

So, when you decide to become a day trader, what you need to do is open a brokerage account with the financial institution of your choice. Brokerage firms come in all shapes and size and will offer various types of accounts. Although, there are two main types of accounts.

- **Full-service account**. This is the type of account that comes with all the bells and whistles. These accounts offer full access to investors in addition to other features such as specialized research, data, analytics, and exclusive content. It also has a higher maintenance fee, but generally has a lower cost per transaction. This is a very important thing to keep in mind as transaction fees can eat into your profits. The maintenance fee is generally in the form of a subscription.
- **Discount brokerage account**. This type of account generally offers basic access to the trading platform. It may have some limited access to data and analytics, though it will generally be restricted to public information. The lack of data and analytics might be alright especially if you have access to other types of information services and subscriptions to

> major business networks such as Bloomberg. These types of accounts have lower maintenance fees but will most likely have higher transaction fees. This is the determining factor as high-frequency trading can rack up a considerable amount of money after a short while.

When you are looking to choose a brokerage account, make sure that you read about everything they have to offer. And most importantly, be sure to read the fine print. If you don't read the fine print, you could be setting yourself up for trouble.

In addition, it always pays to go for trading platforms that offer the most reliable service. You might be swayed to go for the cheapest ones, but they may not be the most reliable. Also, be sure that they trade in the products that you are interested in doing business with. For instance, a given platform may trade in stocks listed on the Dow Jones but not the Nasdaq. So, it is worth checking this out before committing to an account.

Also, trading platforms will generally give a free trial. In this free trial, you'll be playing with house money though it is only a demo version. It will help you get a feel for the way the interface works before making a final decision on whether or not you want to sign on. I would encourage you to take this free trial before depositing your hard-earned cash into the account.

One other point: some full-service accounts offer coaching sessions and/or consultations with professional money managers. If they are included in the price of the account, then take advantage of them. If you need to pay for them, but they come at a discounted rate, then considering booking some sessions with these experts. There is much you can learn from them. So, don't be shy and take advantage of any learning opportunities you might find.

Day trading basics

Alright, so this is where we get into the nitty gritty of day trading. We will be looking at the actual transaction process and how you can get started on making your first trades. These are general guidelines which apply to virtually all trading platforms. However, these might vary from platform to platform. So, it pays to practice with your chosen platform before you go live with the real thing.

As such, the first step is to open up your brokerage account. Whether it is a full-service account or a discount one, you must open up your account in order to begin trading. As I have indicated earlier before to try out a demo account before plunging into the real thing.

Once you have you account setup and funded, you are ready to get your first few trades under your belt. At this point, the first type of assets you ought to begin trading are stocks as these are the most common types of financial assets. In addition, they are the ones that have the most information available.

These first trades may or may not yield a profit for you. While you might experience some beginner's luck, financial markets aren't that accommodating to newbies. Anyhow, the basis of making successful trades is understanding the pricing mechanism of stocks.

Prices for stocks are basically set by supply and demand. So, if a lot of people want a given stock, the price will go up. If the number of people willing to sell is even less, then the price may skyrocket as investors are increasingly willing to pay more. This is another example of how stock trading is a psychological phenomenon at its core.

The other side of the pricing mechanism for stocks is the supply. If there is a scarcity of stock, the price will go up. If the market is flooded because everyone is looking to sell, then price will go down. This generally happens when a company is going through a hard time. Since investors are looking to dump their positions, buyers will be looking to pay less and less for the stock. If the company is in dire straits, such as filing for bankruptcy, then the stock may go into a tailspin.

Ideally, you would be purchasing stocks at one price and then selling them at a higher price. It is really that simple. However, the dynamics of financial markets make it such that you cannot be sure that stocks will go up or down in price.

Additionally, stocks don't really follow traditional market forces as do other commodities and products. For instance, when you purchase a sweater, you can expect to pay less in the summer because most folks aren't thinking about buying sweaters. So, retailers will hold a clearance on winter clothing left over from the previous season.

Savvy folks will know that the best time to buy winter clothes is during the summer. However, sweaters will suddenly retail at full price when the fall rolls around.

The same goes for stocks.

If everyone is looking to get into a "hot" stock, then you can expect to pay more. That is why one of the most important aspects of a good investor is finding those hidden gems; the stocks that represent a great value but that may not necessarily be visible in plain sight.

One other important aspect of successful trading is to take your feelings out of the equation. If you become emotionally attached to the decisions you make, you will have a hard time selling. The more emotionally detached from your investment decisions, the easier it will be for you to make wise trades.

There are other psychological factors that play into making poor investment choices. There is the so-called "herd mentality". This is when everyone is heading in one direction. You can see this when a stock is on fire and everyone wants a piece of the action. This drives up the price of stock artificially creating what is known as a "bubble".

Another important psychological factor is known as the "fear of missing out". This phenomenon consists of making investment decisions because you are afraid of losing out on a great opportunity. This tends to happen to investors when they fail to act on an opportunity and miss out on a great deal. So, they vow not to miss the next one. Consequently, they may fail to properly identify the next opportunity and misjudge the deal. In the best of cases, investors make money. In the worst of cases, they get hammered.

One other psychological phenomenon that you need to be aware of is the "bull" and "bear" markets. Of course, bull and bear markets are real, however, they may play tricks on the minds of investors.

Consider this situation: investors are excited about the media declaring a bull market given the huge rally in stocks over a given period of time. Investors may become overly optimistic in situations where the fundamentals may not necessarily point to sustained growth. Yet, investors go head first and make foolish investment decisions. When the market cools down, so do profits.

On the other hand, the media declares a bear market and investors panic. They begin selling off their stocks in fear of getting burned. The markets begin to rapidly decline while the government figures out what to do in order to restore confidence. The death spiral continues as analysts consider the possibility of a recession.

In both of these cases, there is a very real possibility of investors misjudging their decisions due to the overall sentiment prevailing in the market. Whether the reactions are warranted, or not, basically depends on the fundamentals of the markets.

How trades work

Once you have gotten a firm understanding of how stocks are priced and what drives their trends, we can get into the fundamentals of how trades are conducted.

When you open up your account and begin trading, you have to take your cash and use it to make purchases. These initial purchases will gain you a given number of shares. For the sake of simplicity, let's assume that you are buying into individual companies which you have researched as opposed to buying in bulk across an industry.

You can begin by placing your first market order. All orders, whether to buy or sell, are known as market orders. You can automatically set your trading platform to purchase X amount of shares belonging to ABC company at Y price.

This automatically triggers the purchase order when the specified share hits the price point you want. For example, you will buy 10 shares of ABC company when its share price hits $5 per share. At this point, your bid price, the price you are willing to pay, triggers the system to automatically make the trade.

In this example, we are considering an automatic trading function. However, you can choose to take over the wheel and conduct trades manually. You look at a stock, you like the price and go for it. This can happen when the price of the stock doesn't quite trigger your bid price, but you feel it's poised to rebound. So, it may not have quite hit your price point, but you are willing to pull the trigger on the deal even at a higher price.

When you are ready to sell, you set an asking price. The asking price is just like when you are going to sell a car or a home. You have an asking price, but it is up to the buyer to actually pay that price or negotiate a different price. Given that most trading can be set up automatically, you can set up a sell order in which the system will automatically generate the market order for the sale of the stocks once the price reaches the desired point.

Conversely, you could go into manual mode and sell off your position whenever you see fit. The point here is that you are looking to sell at a higher price, hopefully, than what you paid. This is the start point for all investors. As you get into more complex deals, you will realize that you are not always going to bet on the price going up. There are certain types of investments in which you will be rooting for the price to go down. In which case, you might be looking for the price to go down even further in order to profit from the loss.

When you buy or sell, a stock, the other party will make a profit or loss. It is not uncommon for both parties to profit though generally speaking, one party will be profiting more than the other. When this happens, it is usually the seller that is making a profit on the sale of the stock. Buyer doesn't necessarily profit until they conduct the resale of the same asset.

However, it is more common for both parties to lose. This can happen when the stock's price suddenly tumbles, investors scramble to liquidate their holdings and the new buyers lose as well due to the continuing decline of the asset's price. In this case, the price of an asset may spiral out of control in a downward trend. So, it is best to determine how low the price can go before you make the choice to pick up an asset that is trending downward.

As such, you need to become familiar with the trends of an asset's price. Stocks can trend upward or downward. Even if there is considerable fluctuation in the asset's price, the overall movement of the price will determine a trend. As you will see in the chapter pertaining to moving averages, it is important to identify this trend in order to make a sound investment decision.

Based on that, you will need to identify the trading range in which an asset is moving in. For instance, you may notice that an asset is generally being sold between $5 and $6 per share. It will be hard for you to find the stock listed below $5 and it will virtually impossible for you to sell it above $6.

The lowest point in the price is called the "floor", while its highest point is called the "ceiling". When a floor and a ceiling is established by investors, you can assume that the stock's price has met a "resistance level". So, if you identify that a stock has fallen below its floor, even if for a brief moment, you can pounce on that and scoop up a good deal.

Then you can sell once the price reaches a point you are comfortable with.

Bear in mind that as a day trader you are going to liquidate all of your positions at the end of the trading day. So, you need to be prepared to set realistic price points so that you can cash out in the black at the end of your trading day. If you hold on to stock too long and it is in the red for that day, then you might still want to get out in order to avoid any unpleasant surprises. In that case, you can hope to make your money back the next day.

Overview of the types of markets

As mentioned earlier, stocks are just one of the various types of assets which you can trade through your brokerage account. There are several other types of markets and financial instruments which you can trade. They all vary in the type of asset they trade. They also vary greatly in the level of risk and their level of complexity.

The simplest trades are in the equities market, that is, your run of the mill stocks and bonds. The most complex and riskiest deals are in the derivatives market such as dealing with Mortgage-backed Securities (MBS) and Collateralized Debt Obligations (CDO). These types of instruments are not for rookie investors and are best left up to the professionals.

Of course, you too can learn about these instruments, but it is best to leave them for when you reach all-star mode.

So, let's go over each one of the various types of markets

- **Equities market**

First, the equities market consists of financial assets traded on a stock exchange. A stock exchange is the actual, physical location in which trading takes place. Even if most of the trading happens online, the brokerage firms need to have a physical presence in the building where the stock exchange is housed.

The equities market deal with securities. Securities are the given name to stocks and bonds as they were once considered "secure". However, recent history has taught us that securities aren't so secure. In short, securities refer to any type of financial instrument whose price can be negotiated.

Based on this logic, just about any financial asset could be termed as security. But don't be fooled. There are distinct types of financial instruments out there.

- **Commodities market**

Another type of financial market is the commodities market. In this type of market, you can trade actual commodities such as oil, precious and industrial metals, agricultural products, livestock, and any other hard asset.

This market isn't as widely publicized, and it tends to be very specialized around certain products and industries. For instance, you will find a large corporation dealing in mining, oil, gas, steel and other assets which generally have a complex production process.

The commodities market is also highly volatile in the sense that prices can fluctuate very quickly. So, investors in this type of market need to be keenly aware of the trends surrounding the specific products they are trading in. So, commodities traders need to understand all of the ins and outs of the production processes behind each type of commodity, as well as, the price dynamics of each product and market.

Experienced traders can clear up in this market especially if they are able to make sense of where the trends are leading them.

- **Currency markets**

This is the largest market in the world. It is also the only market which runs 24 hours a day, seven days a week. After all, can you think of a time when cash is not needed? Sure, there are credit cards and electronic transactions. But honestly speaking, cash is needed all the time.

In short, the currency market consists of buying and selling currencies. The most common type of transaction is currency exchange. This is where the Foreign Currency Exchange market (FOREX) comes from.

Those who dabble in FOREX often make huge gambles on the fact that a currency will either increase or decrease in value as compared to other currencies. This is highly speculative but can yield massive returns if done right.

Other types of currency transactions include swaps. This is a type of derivative in which two investors basically swap currencies. There is not an exchange rate involved, just a straight up swap. However, one of the investors may choose to tack on a premium to the other investor especially if one of the investors is holding on a rapidly depreciating currency.

- **Cryptocurrencies markets**

Cryptocurrencies have been the latest trend to emerge in the economic landscape. For most folks, crypto is just that, crypto. They are hard to understand and seem also impossible to fully grasp. However, you can look at crypto like you would any other currency. The difference is that governments all over the world are yet to adopt crypto as legal tender or some crypto version of their legal currency.

As such, cryptocurrency traders have dealt Bitcoin, Litecoin and the like as they would any other commodity. Perhaps the biggest resemblance of cryptocurrency is to gold. Gold is not used as a currency by any nation, but it is considered as a "safe haven" asset by most investors. So, when there is considerable volatility among currencies, seasoned investors will turn to gold as a means of safeguarding their investments. The reason for this is that gold, for better or for worse, doesn't lose its value over time. If anything, it gains in value.

Over the last couple of years, cryptos have taken a pounding across the board. In fact, cryptos are a good example of how bubbles work as the inflated price of crypto reached heights of $20,000 for one Bitcoin. The price has since come back down to Earth and settled around $2,000 per Bitcoin. Some other cryptos trade in the pennies per coin.

Nevertheless, this could be an interesting investment opportunity for you if you do your research and figure the dynamics of that particular crypto. As such, becoming a connoisseur of cryptocurrency requires a great deal of work and understanding.

- **Options markets**

Options are financial instruments that fall under the umbrella of the derivatives market. Now, you may have heard this term thrown around a bit. In short, a derivative is a bet placed on an underlying asset.

Wait a minute, a bet?

Indeed.

Options are bets on an underlying asset either gaining or losing value.

So, you can take out and option on a stock betting on it losing money. If it does, you buy. If it doesn't then you don't buy. In this type of transaction, you can either make money by the asset rebounding in value and thereby you selling at a higher price, or you can make money by getting insured on the loss of value of the stock.

Yes, you read that right.

You can take out a contract in which a financial institution will cover you in case your asset falls in price. These are called "swaps". While swaps are not exactly the domain of day traders, it certainly pays to learn more about the way derivatives work.

As you gain more experience with day trading, you will see the value that options can represent for you and your investment strategy.

The equities market

In this section, we will be taking a deeper look at what the equities market it and how it plays into your investment strategy as a potential day trader.

So, the equities market is the most common market in which day traders dabble. In this market, you are essentially buying and selling stocks of publicly traded companies.

What is a publicly traded company?

It is a company whose stock is available for purchase by any individual.

Now, you can't just walk up and say, "give me 1,000 shares of IBM", but you can basically do that through a stock broker. Depending on the type of account you acquire as an investor, you could potentially order your broker to do what you want. However, most brokers don't like taking orders. As such, there is usually a clause in the contract which you sign that basically gives the broker unlimited decision power over your money once you sign with them. So, be sure to check the fine print.

That is why day trading is a viable option for many folks. They go into it feeling they have complete control over which stock is purchased, at what price, and when it is sold. However, it should be noted that day trading requires quite a bit of research and understanding of individual stocks and where they are trending.

That being said, day trading on the equities market can help you make a decent living. Of course, you shouldn't expect to make thousands of dollars on each trade. In fact, you might be lucky to earn pennies on the dollar for each trade. It is the volume of successful trades that will make you the real money. This is one of the realities that day traders face. So, it certainly pays for you to do your homework on what deals could land you a steady stream of income

One other investment vehicle you might want to look into as a day trader is an index fund. Index funds essentially track the major stock indices and tie their performance to that of the index it tracks. For instance, you can buy an index fund which is tied to the S&P 500. In this case, you would get a mix of some of the top companies in the United States. Therefore, you can tie your earnings to those of the fund itself. If the companies as a whole make money, then you make money.

Another component of the equities market are bonds. Bonds are just like those old government savings bonds your grandparents might have purchased way back in the day. They were hardly the way to get rich, but they could offer a consistent return over their lifetime. They were a way of protecting the purchasing power of your money over long periods of time.

For example, inflation, widely regarded as the loss of value in currency, will eat away at the purchasing power of your money. So, $100 today doesn't buy as many goods as it did back in 1970. So, the interest paid on bonds essentially protected your money from losing purchasing as the interest paid on bonds generally kept up with inflation. So, unless the Dollar goes into hyperinflation as the Bolivar did in Venezuela, you are pretty much on the safe side.

Bonds can be an interesting long-term option for you, especially if you are looking for alternatives to save money that don't involve depositing your money into a bank account. However, bear in mind that if you tie up your money for too long, you may find yourself short when you need to make a considerable investment. Nevertheless, bonds are highly liquid and can be sold at the drop of a hat.

Commodities market

We have spoken about commodities at length throughout this chapter. We have established how important they can be as part of your investment strategy. Although, it would be wise for you to learn more about how each commodity works as it is not always easy to gain a solid understanding of the dynamics for each market. In addition, you may find that the pricing mechanism for some commodities doesn't always follow the traditional rules of the market. Nevertheless, commodities could be an interesting alternative so that you can diversify your portfolio.

The most common way to trade in the commodities market is through an instrument known as an Exchange Traded Fund (ETF). ETFs are a contract in which investor pledge their money to the contract. When they get in, their position is fixed at the price of the commodity at the time of making the deal. Then, the investor may liquidate their position at the price of the commodity at that point in time.

For instance, you buy into an oil ETF. You bought into it on Monday morning at 10 o'clock am. The price at that particular time was $50 a barrel. Then, you decide to sell at 2 o'clock in the afternoon when the price of oil went up to $51 a barrel. In this example, you made $1 off each barrel of oil your purchased. That might not seem like a whole lot, but if you purchased 1,000 barrels, then you just made $1,000 in a matter of hours.

Another way of investing in the commodities market is through futures contracts. Futures contracts lock in today's price on a commodity that will be delivered at some point in the future. This is very common for agricultural products given the fact that these commodities have a tendency of high price volatility. For example, you choose to buy 100 tons of corn at $1,000 a ton. You will receive delivery of the physical goods in 3 months. This is why they are called futures.

The main point of this type of transaction is because you are anticipating that the price of corn will go up. So, you are looking to lock in today's lower price in order to ensure that you won't have to pay a higher price later.

The use of futures contracts is a great way of locking in prices as well as assuring the supply of the commodity in question. Now, you don't necessarily have to take physical delivery of the commodities in question. You can take out an allocated contract which means that you have the physical items at your disposal, or you can invest in a non-allocated contract. In that case, you won't actually get the physical item itself even if you wanted to.

For instance, you bought a couple of oil futures. If it is an allocated contract, you will get your barrels of oil at the maturity of the contract. However, if you can choose not to take physical delivery yourself. You can turn around and sell it to desperate oil companies who need to meet their supply quotas. In that case, they take physical delivery of the oil and you pocket the cash.

In the case of non-allocated contracts, you simply play with the price of the underlying commodity. When the contract is up, you get a check for the amount stated on the contract. This is a great way in which you can hedge your bets against a hard asset without actually taking physical delivery of it. So unless you actually use crude oil for something, you won't really be too keen on having a tanker show up at your door with barrels of oil.

Always make sure to do your homework on the nature of the ETF you are buying into, but beyond that, you can rest assured that an ETF could be a worthwhile investment especially as a means of diversifying your portfolio.

FOREX market

Now, let's take a long, hard look at the FOREX market.

The internet is filled with schemes claiming to help ordinary folks make money on FOREX. You see pictures of retired folks claiming that they turned a $500 investment into $10,000. There have been stories of such cases, but they are really hard to find.

In essence, FOREX is a bet against one currency losing value versus another. So, you can have two currencies (and only two as the bet does not work with multiple currencies. It must always be two currencies), virtually any combination works, and you measure such a combination, one against the other.

Let's look at an example.

You are holding US Dollars and you decide you want to buy Euros. In this case, we are talking about two very stable currencies. Let's assume an exchange rate of €1 equals $1.12. In this case, the Euro is worth more than the Dollar as you get more Dollars for one Euro.

So, you would need $112 to purchase €100.

Now that you are holding €100, you are betting that you will get more Dollars if the exchange rate goes up, that is the Euro goes up in value in comparison to the US Dollar. So now, let's assume an exchange rate of €1 equals $1.15. When you sell the Euros back into US Dollars, you now have $115. That is a $3 profit.

In this fictional example, you are betting on the value of the US Dollar going down. That means that if the US Dollar gains in value, for example, the exchange rate going up in favor of the Dollar, to say, €1 equals $1.10, then you would lose money.

That is why the best way to make money in FOREX is to pick a currency in which you are going to measure your profits. If you are playing with US Dollars, then virtually all other currencies in the world will lose against the Dollar. There are some exceptions, such as the Pound Sterling and the Swiss Franc which would actually gain in value against the Dollar.

Consider the example of the Turkish Lira.

The Turkish Lira dropped about half of its value due to a myriad of economic woes. Those holding Lira quickly looked to trade them in for US Dollars, or any other currency that had a more stable value. The question is: if I am holding US Dollars, why would I trade them for Lira? If the Lira is quickly losing value, why would I trade the more valuable Dollar for them?

The answer is that investors like to use such circumstances to corner markets. So, if I buy up a huge chunk of Lira, then regular people who traded their Lira for Dollars, will then find themselves having to trade their Dollars back into Lira in order to buy and sell in their local currency. However, if I have cornered the Lira market, then I can buy up hard assets on the cheap by using weakened Lira. This is basically how rich people got even richer in Venezuela.

FOREX is a highly volatile and speculative market. That means that FOREX is far from a sure thing. In addition, it is the only market in the world which runs 24 hours a day, 7 days a week. After all, FOREX is money, and who doesn't need money?

We all do.

Even if you use credit cards, you still need money to back up that transaction. If you don't have money, then you can't pay your credit card bill. Eventually, you won't be able to buy groceries or get gas. That is why money is needed, in some form, at all time.

One important thing about the FOREX market is that it is highly liquid. That means that you can use the money you have invested at any moment.

What does this mean?

It means that you have access to your money at all time. It is not like investing in other types of assets in which you need to wait a given amount of time before you can sell the asset and then get paid. This is important when you invest on margin or you short stocks. If you don't have the funds to cover your shorts, you could be on the hook for penalties and even jail time.

FOREX is not for the faint of heart. So, if you are serious about dabbling in this market, be aware that you will face some stiff competition. Moreover, you may not make as much money, if any at all, as you had hoped. So, it certainly pays to do your research before jumping into FOREX.

One other thing: try to avoid buying into currency ETFs. They are far too risky and will not get you the returns you would like. You will, more than likely, take some hits before you actually make some money on currency ETFs. So, it is best to go through the FOREX trading process one currency pair at a time. Also, bear in mind that open positions in the FOREX market can be very risky. So, make your deals, set your trigger points and let the software take care of the rest.

Cryptocurrency markets

I get a lot of questions about cryptos all the time.

My short answer is: don't touch cryptos with a 10-foot pole unless you know what you are doing.

It is really that simple.

Cryptos function in a similar way to gold. Of course, gold is seen as a commodity just like oil or sugar. However, gold is one of the few commodities that doesn't lose value over the long run. As such, you can put money in gold and be relatively sure that it won't crash down to zero as has been the case with other commodities.

Unfortunately, the boom of the crypto market was fueled by speculation. Many folks figured that cryptos were the new big thing and decided to pour incredible amounts of money into. In fact, investors left other asset classes such as commodities, FOREX, and bonds to invest in cryptos. This fed a bubble that grew to epic proportions.

In the case of Bitcoin, it reached heights of $20,000 per coin. At this point, the last wave of investors who bought a single Bitcoin at this price got hammered when the price came back down to Earth. Whenever there is a bubble, it is the last guy to get in that takes the biggest loss.

In that case, you see a psychological phenomenon in which investors are determined to hold on to their investment in hopes of it recovering lost ground. What ends up happening is that the price keeps tumbling until the investor is either wiped out or decides to take a loss and sell.

The *raison d'etre* for cryptos lies in its ability to function as an alternative for traditional currencies, that is, to buy and sell goods and services. However, governments frown upon this practice and it goes against legislation regulating the issuance and use of currency. So, using cryptos to buy and sell is technically illegal in most countries, though governments don't really know how to react to it.

This is why some countries have cracked down on Bitcoin and other cryptos citing that it is illegal to hold it and use for business transactions. If it is traded as a run of the mill commodity, then it shouldn't be considered as "currency" and therefore poses no threat to the sovereignty of a nation's money supply. In other words, it trades just like gold. Gold can be used to make transactions, but it would never be considered as a currency.

As a day trader, should you be dabbling in the crypto market?

At first, you shouldn't. While it might be tempting to try and make some good deals, I wouldn't advise you to get into cryptos at the beginning of your day trading career. It is just like getting into other commodities or financial instruments such as bonds, or derivates. It requires some experience and understanding before you can take the plunge into more complex investment strategies.

You can buy into crypto ETFs or purchase the cryptos themselves. Cryptos can be purchased directly from the companies that issue them. So, you don't necessarily have to go through an exchange or a brokerage firm. In a way, it is like buying gold from a pawn shop. There is no one stopping you from doing so. Nevertheless, there is little guarantee that what you are buying is the real deal. You open up yourself to being duped.

Thus, it is always a good idea to go through reputable companies which you know won't put their reputation on the line over a few bucks. Hence, crypto ETFs make a good investment especially if you see that the price of a given coin is jumping. The best part of an ETF is that you can sell your participation in the fund. That means you don't have to sell the actual coins themselves, just your participation in the fun.

Now, can you make money in cryptos?

Absolutely. That is why you need to study them and learn as much as you can about them before committing your funds to this type of investment. Nevertheless, you can profit from investing in this filed so long as you heed the warnings and take the advice of those experts have made it big themselves in this type of market.

Options market

Earlier, we discussed options and how you can use them as a day trader to protect yourself against the often-sudden fluctuations in the market.

In essence, options consist of, well, options. That is, you have the options, but not the obligation, to buy or sell and asset.

As such, there are two kinds of options.

The first is the "call option". In this type of option, you are setting a price point, or maturity date, in which you are planning on purchasing a given asset. When either the price or the date is reached, the contract is triggered, and the deal goes through. However, given the fact that it is an option, you do have the choice of not going through with the deal or not. Of course, there are rules governing the contract so you can't really do as you please. Nevertheless, if you act within the stipulations of the contract, you can make a good deal of money.

Let's consider this example.

You are looking to acquire stock in ABC company. So, you are keen on purchasing an asset in case it reaches a given price point. At this moment, the stock sits at $10 a share. You will buy it if it reaches $9 a share as you are convinced that if it does fall, it will rebound eventually thus making you a profit. In addition, you have set the option with a maturity of one month. This means that if the price of the stock falls to $9, or if one month passes, the deal with go through. The market order is generated, and you are the owner of ABC stock.

However, if it one month and the stock has not fallen, rather, it has risen to $11 a share. At this point, you decide this deal will not make any sense to you. So, you pull the plug on it before it is too late. In most options, you have to pay a fee associated with the cost of issuing the option itself. So, the only loss you have is the fee for the issuance of the option.

The other type of option is the "put option". This type of option is used when you are looking to sell your position. For example, you hold stock in ABC company. You are not looking to sell, but if the price of the stock is right, you might be inclined to sell.

For instance, if the price of ABC stock reaches $12 then you are willing to sell. You set up the call option with a one-month maturity. If the price reaches your desired price point, then the deal goes through. If the stock should fall, to say, $10 a share, instead of rising, you can do one of two things: you can either hold on to it and wait for a rebound or dump it immediately before you lose money on it.

In that regard, the trading platforms that you will be using as part of your day trading endeavors will allow you to set up your own options. For instance, you can set up deals in which you set a price point to purchase and then a price point to sell. The system will do it automatically for you. So, all you have to do is input the information that the system requires. The best thing about making deals in this manner is that if you happen to fall asleep at the wheel, the system has got your back. That way, you won't run the risk of missing out on the potential trade opportunities.

Now, does that mean that you can just set everything up and go take a nap?

No!

The last thing you want to do as a day trader is to leave open positions unattended. Even if your options are open for a few hours, you still want to be on top of everything that's happening around you. That is why I used the example of Boeing. After all, who could have anticipated an airliner going down?

And while it was an unfortunate and unexpected event, your trading platform is not equipped to handle that. It is during those types of events that traders hit the manual override button and take the wheel.

In the wake of the grounding of the Boeing 737s, many investors began dumping their stock in anticipation of a sell-off. Those who go out quickly most likely made a few bucks. Those that reacted too late got stuck with the depreciating stock. Those that decided to hold on to it have fared even worse as the stock doesn't seem quite poised for a rebound. At least not until Boeing can figure out how to remedy their situation.

This is why you can't afford to leave your positions open and have a two-hour lunch. Nevertheless, options can certainly help cover your back in case your price points are triggered. So, it really pays to become familiar with all the functionalities that your online trading platform can provide you.

Bringing it all together

We had a lengthy discussion in this chapter about the basics and fundamentals of day trading. As you can see, it is an extensive topic and one that requires you to be on your toes. Really, it is just like anything in life. If you don't keep up with the times, you will miss out. That being said, it is certainly worth your while to keep up with the latest developments and trends in the business world.

As such, I would advise you to spend a few bucks on premium subscriptions that grant you access to data and analytics just like the ones professional traders use. At first, it might seem like a mess of numbers. But as you gain familiarity with technical analysis, you will see how every bit of data makes sense within the broader investment ecosystem.

So, as you have heard a few times now, it pays to do your homework. The more time you invest in making the most of your opportunities to learn, the more it will pay off in the quality of trades you make.

Bear in mind that it is a process which takes time, but it is time well spent. As the old saying goes, "time is money".

Indeed, when you spend time perfecting your skills, time really does become money. As you gain further insights into the world of investing, you can set up passive income streams that will put money in your pocket every month. While one income stream on its own won't make you rich, the sum of multiple income streams will certainly make your life a lot easier to deal with moneywise.

2

Trend following: Moving averages

In this chapter, we are going to take a deep look at the topic of moving averages. The use of moving averages is fundamental in stock trading.

But before we get into the nuts and bolts of moving averages, we will have a discussion on technical analysis since it is the use of this approach that will enable you to make investment decisions based on sound data.

Definition of technical analysis

One of the most common topics you hear about in stock trading is the use of technical analysis.

But what exactly is technical analysis?

Technical analysis consists in the use of data and analytics within statistical models that can be used to, essentially, forecast the movements in the price of a given asset or financial instrument. This is why stock trading is very data driven. You need to become familiar with the various types of data that are generated across all financial markets.

The type of data that you will see will vary from market to market. Nevertheless, the are several types of data and analytics which are widely used. Now, some of the methods in calculating these data may vary. But at the end of the day, they should all coincide with very similar results.

Perhaps the biggest drawback for technical analysis is that you may not have all of the information you need in order to make a sound analysis. In such cases, you may have to rely on your instincts or your better judgement based on your personal experience.

That being said, it is important to have a firm grasp of the fundamentals in order to gain a clear understanding of the trends and patterns in stock trading. That is the fundamental aspect to keep in mind: the trends and patterns in the price of a stock.

At this point, it is worth noting that there are data which are very specific to certain assets. For example, if you are dealing with commodities, the supply of the commodity in question may be a big concern for you. Also, production costs may play a big role in determining what the right valuation for the specific product would be. So, these are data which you need to keep in mind.

On the whole, technical analysis of stocks is driven by prices. So, the analysis of stock prices will determine the decisions that traders will make. Based on that information, traders will come to a conclusion on the best course of action to take on a given stock.

Expectations

It is also very important to remember that stocks are driven by psychological factors. While the price may be the determining factor from a quantitative perspective, it is the qualitative aspects pertaining to the psychology of investors that will ultimately drive prices further up, or further down.

Often, you will find that market trends seem to defy the laws of nature. For instance, you see that a stock price is going up despite the company reporting quarterly losses. Now, you would expect that if a company is reporting losses that the price would go down. However, based on trends, investors may think that one bad quarter is an outlier in what has otherwise been a solid company.

When stocks fail to meet the expectations of analysts and investors, you can safely assume that the stock will decline in value. This is especially true if the company has a bad track record in recent years. On the contrary, if the company has proven to be a successful company, and consistently delivers on investor expectations, you will see their stock price consistently increase in value.

This is why companies such as Apple and Amazon have such high stock prices; it is due to their consistent performance in which they deliver on analysts' expectation while meeting their targets. Then there are other companies who fail to meet expectations and subsequently pay the price for it. If you happen to hold stock in such companies, you might want to look at dumping it since one bad earnings report can wipe out any gains you have made on that stock.

Earnings reports

Another of the quantitative variables that factor into the trends in the price of a stock is their earnings report. This is a critical number which you must become familiar with. All publicly traded companies must disclose their financial information. This includes the amount of money they make and the profits, or losses, they generate in a given time period. The usual time period for reporting is quarterly.

As such, there are specific seasons in which companies submit and publish their reports. For instance, the end of January and early February are important to investors as this is the time period in which companies disclose the fourth quarter earnings.

These earnings reports are tied into expectations as most companies issue their own guidance on what they believe their earnings will be. Companies may simply come out and say that they expect their sales to be lower than during the same period the year before. In that case, that company's share price will reflect the new expectations from the market.

This is where investors can come in and scoop up some stock at a decent price. The bet there is that the stock will rebound eventually. If it does, investors clean up by buying low and selling high. On the other hand, if the stock further declines, then there will be some tough decisions ahead.

Also, betting on a stock rallying may imply having to hold on to it for a longer period of time, say a few months, as opposed to buy and selling it within the same trading day. As a day trader, this is an approach which you need to think long and hard about.

Technical analysis tools

There are various indicators, indices, and variables which are used within the realm of technical analysis. They all play a specific role within the valuation of a stock and determining if the information reflected in the price of a stock is accurate or an outlier.

As you gain familiarity with the way technical analysis is conducted, you will see a plethora of indicators that you can use. One of the most common, and essential, indicators is the moving average. This indicator is used as the basis on which investors will determine the direction of the trend for a stock price. Moving averages are also used to gauge resistance levels, that is, the floor and ceiling of a stock.

Definition of a moving average

As its name suggests, a moving average is an average of a stock's price over a given period of time. In general, there are thousands upon millions of transactions happening every day. As such, it may be very hard to keep up with all the data that pour out on a daily basis. Nevertheless, moving averages track the performance of the individual stock over a specified period of time.

Moving averages are generally calculated on an hourly basis. They represent the average price of all of the transactions conducted during that time. Let's say that ABC company's stock was bought and sold ten times over the last hour. Investors will want to look at the highest price, the lowest price, and the average price during that hour.

The high and low prices are measured by a tool called "candlesticks". They look like small rectangles that track high and low prices. The shape of the rectangle looks like a candle; hence its name.

In the case of the average price, investors will look to see if the overall price of the stock is going up or going down. Ultimately, the high and low price may not have as much bearing on a decision to purchase as the average price would.

Now, the "moving" part of the average is calculated by updating the average price of the stock every hour during a trading day. The end result of this calculation is a scatterplot diagram that tracks the individual points where the price of the stock is located at each hour in the day. The corresponding trend line determines if the stock is going up, down, or remaining flat.

The most common measure of a moving average is the two-day moving average. In this measure, the average price of a stock is measure over the last two days. It serves traders to determine the short-term trend of a stock price.

As a day trader, this will be your new best friend. If you are able to accurate gauge the trends as shown in the two-day moving average, you will be able to make some nice profits on a consistent basis.

At the same time, there is the 10-day and the 50-day moving average. These two types of moving averages track the performance of a stock over a much longer period of time. They will enable you to see that trend in the stock price and help you determine resistance levels.

Often, you will see a stock trading in a given range. A range can be as big as several dollars and razor-thin, that is, a few pennies going either way. The way to make good returns on stocks trading in narrow ranges is to buy and sell a considerable amount. So, if you are making 5 cents on every share, you can make a good chunk of change is you magnify that over 5,000 shares.

The other type of moving average that is used is the 200-day moving average. This indicator provides the best measure for a stock's overall trend. It is in the average that you can determine if a stock's trend is reversing. In addition, you can gauge whether the stock will rebound after a bad quarter, or if the bad quarter is a sign of things to come.

It is very important to keep the 200-day moving average in mind as stock prices always revert back to the mean. For instance, if a stock's price has traded around $10 a share over the last 200 days, then a jump to $13 may just be an outlier. If you buy it hoping it will go up even higher, you might be disappointed when it sinks back to its mean of $10.

By the same token, if you see that a stock falls below its mean, say $9 in this example, then you can scoop it up to sell it when it gets back to its mean of $10. As always, do your homework as there might be a powerful reason for the decline in that stock's price. Perhaps there is something that others know which you don't. But then again, you would be able to pick that up by observing the 200-day average.

How to use moving averages in valuing assets

As we have indicated previously, moving averages are an important tool in valuing assets. They will allow you to see where the trends are and if making a deal is right for you.

As such, you can use moving averages to value stocks yourself. If you feel that the range in which a stock is trading is not accurate, you might have spotted a potential change in trend. In such cases, you might want to hold on to a stock for a while before the market gets wise and decides they also want a piece of the action.

The use of moving averages can also determine is a stock is overpriced. In that case, you can wait for the price to reach a more realistic level.

Moving averages are also useful is spotting bubbles, as it is not common to see share prices go up and up and up without coming back down. A normal trend would show you prices go up, then come back down and the go up again.

When a stock if poised for a breakout, you will see it in the 200-day average. Perhaps a new resistance level is about to be set. But, you need to look at the fundamentals behind the breakout. So, if the fundamentals check out alright, you could have the next big thing on your hands.

The good news is that data on moving averages is available for free. So, the most important piece of data that you need in order to make sound trades is free to use. Thus, make a point of becoming familiar with the data as soon as you embark upon your day trading endeavors.

3

Trend following: Crossover of moving averages

In the previous chapter, we had a close look at how moving averages are a fundamental part of technical analysis. Indeed, no stock trader could hope to be successful without a good understanding of moving averages.

So, does that mean that moving averages the end all and be all of the technical analysis?

Hardly. There are various tools which you can use to aid you in supporting your investment decisions. That is why we will be looking at the patterns of moving averages as evidenced in the crossover of moving averages. In addition, we will be looking at how you can use the fifty-day and two hundred-day moving averages to determine a crossover.

Trends in moving averages

The main purpose of moving averages is to identify the trends over a given period of time. These trends jump right out at you by simply generating a scatterplot diagram with all of the various points of the moving average over the period observed. Then, you can trace a line connecting the various points in order to observe the overall trend of the asset in question.

This trend can be further reinforced by calculating a trend line based on the data set provided. Most statistical programs can make this calculation fairly easily. Personally, I would rather use MS Excel, but that is a question of personal preference. There are various programs out there that can run the numbers for you.

In addition, premium data analysis subscription services can generate that for you. These services can generate moving average data over different periods of time ranging from one day to a year. Depending on the asset you are tracking, some services will even offer you data over a 30-year period. So, it certainly pays to look into one of these premium data services.

Trends in moving averages can either be bullish or bearish. A bullish trend means that the price is trending upward, while a bearish trend means that it is trending downward. In either case, there are peaks and troughs all across the data set. But the overall trend of the price is heading in one direction.

There is a third type of trend which is a flat trend. In this type of trend, the price of the asset does not move. Rather, it remains steady within a very narrow range. As such, the trend line for that asset has a more horizontal, or sideways, trend. This indicates that investors are wary of breaking the trend either. There are many reasons why an asset would trend sideways. So, it is best to do some solid research as investors may be positioning themselves for a breakout.

Bullish trends generally respond to overall investor confidence in the asset while bearish trends respond to decreased investor confidence. Again, there is a myriad of reasons why investor confidence would trend either way. That is why it is important to look at the data and conclude what the underlying factors are for the trends in the price of that asset.

Personally, I like to start off by looking back at the data over the past year. Unless the stock is brand new and doesn't have data that goes back that far, looking at the data over the past year will help give you a clear picture of where the overall price is trending.

The two-day average

As we mentioned earlier, the most common moving average indicator is the two-day average. It is rather difficult to determine long-term trends from the two-day average though it is possible to pick up on outliers.

In essence, the two-day average is a great way for day traders to figure out if it is the right moment to make a deal, or perhaps wait to see if the price of the asset is trading within its range. This is important to note as day traders may only hold on to a stock for a couple of hours. So, unusual dips may provide an opportunity to cash in as the price rebounds back to its mean.

Also, the two-day average is important when considering other types of assets such as commodities, ETFs and futures. Nevertheless, this is the most important measure that day traders need to become familiar with.

The ten-day moving average

The ten-day average is certainly used in determining if the price of an asset is on par with its trend, or if it may signal a reversal in trend. While the ten-day average is not quite long enough to identify a potential reversal or breakout. In any event, a ten-day average is a useful tool for swing traders and short-term investors as this average will enable traders to figure out the trading range for a period of about a week.

It is also worth keeping an eye on the ten-day average as it is long enough to see the initial effects of changes in the economy. For instance, the Federal Reserve adjusts interest rates, either upward or downward. So, this would be long enough for investors to begin to see a change in trend with regard to the way investors feel about the changes in the economy.

The fifty-day moving average

This is where it begins to get interesting.

50 days is almost two months. This is enough time to clearly visualize the trend for the price of a stock. The fifty-day average is also just enough time to see if there is a reversal or breakout underway. As such, this is the first average that is looked at by investors in order to determine a crossover condition.

It should be noted that the fifty-day average doesn't normally fluctuate significantly. If it does, it could be a signal that the overall economy is under turmoil. However, economic turmoil might seem like a bit extreme. So, it should be expected to see the fifty-day average reflect the trend of the ten-day and two-day average.

But as we have stated, this is where potential reversals and breakouts can be determined.

So, how can you spot a potential reversal or breakout in trends?

You need to look at the resistance levels of the stock's price.

Now, you might be able to determine resistance levels as early as the ten-day average though the fifty-day average is ideal in determining the resistance levels that a stock's price might reveal.

Consequently, the patterns observed in the trading range will determine if there is indeed a resistance level or if it is yet to be set.

For example, the price of ABC Corp's stock has been consistently trading in a range of $10 to $12 as observed in the fifty-day moving average.

For this particular stock, there has been a clear floor and ceiling established. Whenever the stock dips just below $10, it picks right back up to $10 and continues to rise. Then, as the stock approaches slightly over $12, it promptly settles back under $12.

This is a classic example of resistance levels.

As long as stock trades within its resistance levels, then investors can have predictable returns on this investment.

The issue becomes when the moving average appears to be indicating that there is going to be a break past the resistance levels observed in the stock's price. Of course, the break could be either upward or downward.

In the event that you see a break in the resistance levels in the ten-day average, you might go back to the fifty-day average to confirm if there is indeed a potential break in such resistance levels. But before you can fully call a reversal or breakout, you need to take a good look at the two hundred-day average.

The two hundred-day moving average

The two hundred-day moving average is the most important average in determining if there is an official break in resistance levels.

Now, it should be said that resistance levels can break at any point. In fact, unforeseen events can blow the doors off trends.

Think of game-changing event such as 9/11. When such events occur, all bets are off. There is no way of telling how markets and investors will react to such events. So, resistance levels can suddenly bust loose.

Barring historical events that happen once in a lifetime, changes in trends largely depend on factors such as company management, economic events, and overall investor confidence.

So, here is where it gets tricky.

Let's assume that the government begins to report weak jobs data. Unemployment has been increasing over the last couple of quarters. As such, the Federal Reserve's cuts rates in order to give the economy a shot in the arm. Investors take that as a vote of confidence and decide to pump more money into the stock market. Consequently, the market rallies and stocks that had been previously stuck in a tight range may suddenly breakout.

Given the fact the overall sentiment of the economy is now bullish, the stock price for ABC Corp has been steadily rising as this corporation seems to be benefitting from the rate cuts. As such, the fifty-day average surpasses the two hundred-day average. In this case, an official breakout is declared thus leading investors to consider a new resistance level, that is, a new floor for ABC Corp's stock.

Let's consider another scenario for a breakout.

ABC Corp is a pharmaceutical company that has been experimenting with a new drug. Investors are excited that the drug will revolutionize treatment and will produce considerable gains for this company. So, investors are bullish. The fifty-day average has shown a steady increase in ABC Corp's stock price. When the first sales reports on the drug are published, investors are extremely excited about the results and the stock soars. The fifty-day average moves past the two hundred-day average and the stock sets new resistance levels.

Now, let's look at a stock which may tank.

For instance, ABC Corp is a large retail company which has been mired in a scandal over allegations that it has been purposely selling defective products to customers. The company has been under investigation, but investors have given the company the benefit of the doubt as sales figures remain strong.

Suddenly, it has been confirmed that ABC Corp is indeed guilty of wrongdoing. As such, its stock plummets as investors head for the hills. The fifty-day average falls well below its two hundred-day average. New resistance levels are set as investors don't figure the stock will climb past a given price. If anything, its price will continue to fall as investors are looking to stay away from this stock.

As you can see, there can any number of factors that can affect a company's share price either way. So, it certainly pays to follow each company closely especially if you are looking to buy into it.

When to pull the trigger

So, the question is, when to pull the trigger?

That depends on what you figure is going to happen.

If a company is poised for a breakout, such as the example of the pharma company, you might be looking to see if the stock is consistently trading in a narrow range. If you see that this is the case, you might want to buy into it with the anticipation that it could take off any day.

As a day trader, you can purchase and sell its stock on a daily basis in hopes of the day when the stock actually takes off. Given the fact that there is quite a bit of optimism surrounding this stock, you might actually consider holding on to it for a bit longer, say, a few weeks. Then when the stock turns, you can make a good profit.

In the case of a stock which is poised to tank, you can figure that it would be a bargain to pick up especially if you feel that price will rebound. Now, this is a bit risky as it is very hard to determine a floor. But you can begin to visualize that in the ten-day average.

Consequently, you decide to pick up a few shares when you see the price levelling off in hopes of the stock rebounding. Of course, you need to be aware of why the stock is falling. After all, a large corporate scandal can bury a stock. But weak revenue data is not the end of the world. So, you need to really pay attention to the reasons why the stock is falling.

At the end of the day, your experience with trading will help you determine where the trends are heading. In a way, it boils down to experience and gut feelings. When you can back up your gut feelings with data and sound fundamentals, there is very little chance for you to go wrong. However, if you have a gut feeling which you cannot back up with data or analytics, then you might consider going on a limb. Just be careful as one bad deal can put a serious dent in your portfolio.

4

Trend following: Turtle trading

In this chapter, we are going to be looking at a philosophy within the domain of trading. As such, "turtle trading" is an approach that you can put into practice as a trader.

Bear in mind that the name of this approach is not because we are going to super slow about making money, rather we are going to be focusing on avoiding fads.

Now, you might recall how I have made my point several times throughout this book on the fact that trading is very psychological. What that means is that it is easy to get caught up in the hype that might be surrounding a stock or the sensation that might be the product of a new company of even industry.

In fact, you can look at the "dot.com crash" as an example.

In the late 90s, the first internet companies were really beginning to take off. Investors had wisely recognized that there were tech startups such as garage bands named Google and Amazon that had good potential.

These garage bands were really good but needed a push in the right direction. So, investors began buying up their stock and pumping them with working capital. For every Google and every Amazon, there were a dozen failures. But investors didn't care about that. They were hoping to get in on the ground floor of the next big thing.

This fueled the tech bubble that burst in late 2000, early 2001 and was further compounded by 9/11. The Nasdaq lost nearly 80% of its value from 2001 to 2002. This was a massive wipe out that mainly took down the last guys to get into the action.

This example underscores the fact that fads are very psychological and can lead to irrational investment decisions. So, it is important for you to recognize the difference between a fad and a trend.

In short, a fad is just people talking about the next big thing. These are the folks giving you tips on "hot" stocks that you need to get into right away. Frankly, if you are hearing about hot stocks at your office or from your buddies at the bar, then you are already too late.

However, if analysts are calling for a stock to breakout, and you see that the fundamentals check out alright, then you can seriously consider making a push for this stock. Hence, the concept of turtle trading.

Definition of turtle trading

Turtle trading is not about a "slowly but surely attitude". It is more about riding the big trends in the markets. You see, everyone wants to hit a home run. Everyone dreams of coming up to the plate with the bases loaded and just knocking the cover off the ball. Sure, it is a great fantasy. One big deal and you are set for life.

However, get-rich-quick almost always burst in your face. In the best of cases, you will end up putting a dent in your portfolio. In the worst of cases, you could be wiped out. As such, turtle trading does not espouse a risky trading approach in which you are betting on making a huge splash.

Consequently, turtle trading is not the sexiest of approaches. It is not a run and gun approach that is the hallmark of maverick investors and stock brokers. In fact, it is rather boring as turtle trading espouses having a solid understanding of the fundamentals that support the trends and movements in prices, be they up or down.

The philosophy of turtle trading

Given that turtle trading is more philosophy and mindset than a quantitative model, there are a series of core beliefs that are espoused by this approach. They are listed as follows:

1. Keep your emotions in check even when your capital is bouncing up and down
2. Keep a cool head
3. Judge yourself by your processes and not by the results themselves
4. Be prepared to act when the market strikes
5. Be ready for the impossible at any time
6. Plan ahead for the next day; be aware of what your plans are and your contingencies
7. Determine the probabilities of winning and losing; determine what you will gain and what you will lose

As you can see, this is a very rational approach. The intent is to remove the psychological and emotional factor out of the equation.

Keep in mind that this is about keeping your emotions in check amid the volatility and uncertainty that accompany markets. In addition, "keeping a cool head" is one of the most important traits that all investors must possess. In a way, it is like having ice water in your veins.

Turtle traders are well aware of the fact that the economy and markets can turn on a dime. As such, they need to be ready for any contingencies that may arise. That is why good turtle traders always have a game plan. They understand what can happen and what they will do in order to address any, and all, changes that may arise in the market.

Furthermore, turtle trading calls for investors to be keen on what they have to gain and what they have to lose. This understanding helps put the circumstances of all trades into perspective. Therefore, you will be keenly aware of the worst-case scenario, as well as, the best-case scenario.

Consequently, it is a matter of planning ahead in order to ensure that all angles are covered. If there is any angle you have not considered, then be sure that some surprises may arise from those uncovered angles.

Finally, turtle trading is about understanding the probability of the likeliest events happening while being ready for those fluke events which may happen unexpectedly. So, even if an event seems outrageous and highly unlikely, you need to think about what you would do if such an event actually happened. After all, could anyone have imagined 9/11?

Hence, a good turtle trader would have been prepared for a contingency in which the stock market suffered a great shock. While a turtle trader may not have been able to predict 9/11, they would have been prepared for the markets tanking.

Your reaction needs to be planned ahead of time. That way, you are not scrambling, trying to figure out what to do in such circumstances. The problem is that if you are forced to make decisions under duress, then you will most likely make mistakes. That is why it is important to avoid making decisions under harsh situations.

How to carry out turtle trading

The core tenet of turtle trading is conducting trades under a scientific approach in which subjective factors such as emotions are taken out of the equation. As such, you are more focused on numbers and fundamentals as opposed to getting hyped up about the next big thing.

Again, there are folks who engage in stock trading hoping to hit a grand slam. But, let's face it, the likelihood of that happening is slim.

So, turtle trading provides a viable alternative for investors and day traders to follow a logical and rational approach based on trends.

Here are the main steps to turtle trading.

1. Define the question to be studied
2. Collect information and establish resources
3. Develop your hypothesis
4. Conduct experiments and record data
5. Analyze the data collected
6. Interpret results, draw conclusions and test hypothesis
7. Make results public

If these steps sound like 10^{th} grade science class, it is because turtle trading is intended to be very scientific. The steps above outline a run of the mill science experiment. And just like a regular science experiment, economics and business run similar types of tests in order to build and prove a hypotheses.

As a day trader, you need to keep this type of mindset present as it will allow you to develop a highly scientific and structured approach to your trading activities.

By implementing this type of approach, the onus is on eliminating all subjectivity out of investment decisions. Those gut feelings that I mentioned earlier, while useful, are rather meaningless unless you can back them up with sound fundamentals.

As long as you can take your emotions out of the equation, you have a good chance of making good calls based on your sound judgment regardless of specific facts and data. The data itself will serve to justify your decision. So, if you find it hard to justify your decision with data and number, you might want to reconsider your hypothesis.

Now, something important pertaining to experimentation. Since experimentation is an invaluable part of the scientific method, I encourage you to make good use of the practice, or demo, accounts as they will help you test your own assumptions and hypotheses. There is nothing worse than conducting a science experiment with real money.

Advantages of turtle trading

The main advantage of turtle trading is that it takes emotions out of the equation. That is crucial if you are to become a truly successful investor and day trader. As long as you can keep your head on your shoulders, you should be in a good position to make some important gains.

In addition to keeping emotions in check, turtle trading is all about riding the trends. So, if you are able to visualize the trends in a specific market, and even the overall economy, you will be able to determine if there is money to be made.

It should be noted that clever turtle traders can make money whether there is a bear, or bull, market. The way to make money is based on understanding the trends, just as we have discussed earlier, and not letting your emotions get the better of you.

For instance, the media and the government have declared a recession. So, investors panic and begin dumping everything they own and moving it into the so-called safe have assets.

In this event, you can pick up some quality stocks on the cheap. You can then either hold on to them in hopes of them rebounding or even they pay a good dividend, you can hold on to them in order to collect the dividends.

By visualizing trends, you can take advantage of other investors' rash decisions.

What to watch out for in turtle trading

Here are some things to keep in mind when using the turtle trading approach.

- **Always double check data**. While you might have reliable sources of information, it is always good to double up on everything. So, if you see that two, or more, sources reporting similar information, then you can be confident that there is a credit to what is being reported.

- **Don't fall prey to the hype**. It is common to have conversations with friends and colleagues. There are those who claim to be in the loop and constantly share their "insider" information. Beware of these folks. They often don't know what they are talking about and will only get you in trouble as they are generally the last guys to get in on a deal. So, do your own research in order to uncover hidden gems.
- **It takes a bit of time making money with turtle trading**. As mentioned earlier, turtle trading is not about hitting a grand slam on the first pitch. You need to gain a good understanding of how trends can be used to make money. When you do, you can ride those trends to some real profits. That is the magic of turtle trading. But bear in mind that it takes time to become truly proficient at it.
- **Gut feelings without solid fundamentals are shots in the dark**. You can be a very keen investor. But if you can't justify your gut feelings with fundamentals, then you are basically gambling on a stock. So, no matter how good your intuition is, if you can't back that up, then you make want to think again before investing in a given situation.

As you gain a deeper understanding of the turtle trading philosophy, you will become more and more adept at using your better judgment to spot opportunities. So, the easiest way to determine these opportunities is by looking at their balance sheet. As such, you need to become familiar with companies' balance sheets, in addition to the rest of the relevant information that is published across the business and financial media.

5

Counter-trading following: Relative strength Index

In this chapter, we are going to be taking a deep look at the Relative Strength Index, or RSI.

The RSI is another tool within the technical analysis toolbox which you can use to help you determine the trends and patterns in the pricing of stocks. Bear in mind that this measurement enables you to see if the trend makes sense and will continue on that path, or if a reversal may be underway.

This is the core tenet of the RSI: being able to determine if a reversal may be about to happen. As such, you can pick up on it and jump on that reversal.

Definition of the Relative Strength Index

The RSI is a technical analysis tool which is known as a "momentum oscillator" tracker. In other words, the RSI tracks the speed and change of the price in a given stock or security.

Within the realm of stock trading, "oscillations" refer to the fluctuations in the price of a stock. These fluctuations may happen within a narrow range, such as when the stock has a sideways trend or may have considerable volatility.

Generally speaking, individual stocks don't have wild fluctuations unless there is something causing them their prices to spike up and down. It is usually a factor associated with external conditions such as the overall economy. Nevertheless, a tool such as the RSI can pick that up and help investors see if there is a trend, or if the stock is poised to generate a reversal.

In general, the RSI is measured on a scale from 0 to 100. Since there are no absolutes in this world, you will never see an RSI of 0 or 100. You will generally see the fluctuations between 10 and 90. These extremes allow investors to see the pattern of the stock and determine which direction it is headed.

Here is a rule of thumb to follow when analyzing the RSI:

- When the RSI is above 70, the asset in question is considered to be overbought.
- When the RSI is below 30, the asset in question is considered to be oversold.

Based on the rule of thumb indicated above, the normal range for an asset would be between 30 and 70. Bear in mind that in a normal distribution model (which the RSI is based upon), the main purpose is to eliminate the ends as the ends represent unusual circumstances which are not representative of that asset's usual patterns.

Now, what does it mean to be "overbought" or "oversold"?

Since the price of stocks is general dictated by supply and demand, these two terms refer precisely to the fact that supply and demand are what drive stock prices.

So, if the RSI shows that a stock is overbought, it means that demand is greater than supply. Based on that, the price of the stock would tend to be higher given the fact that greater demand generally tends to drive the price up. While this doesn't happen every single time, prices do tend to go up when demand goes up.

On the other hand, when a stock is oversold, it means that there is increased supply. When supply is greater than demand, the general trend in price is a lower one. This is due to the fact that the asset is readily available and is outpacing the interest of investors.

In either case, price tends to compensate for the variation in supply and demand. In a perfect world, supply and demand will always balance each other out and the market would be able to determine a stable price. However, this is generally not the case. As such, you can figure out where the trends lie and make money based on that trend.

Who is the Relative Strength Index for?

The RSI is used by investors of all shapes and sizes. It is ideal for measuring volatility as it allows for the determination of the price fluctuations. However, given the fact that the RSI is based on a normal distribution, you can see how the trends and patterns emerge even when there is considerable volatility in the overall price of an asset.

In that regard, you can use it to determine if the patterns and behaviors observed in the overall trend of the stock are justified. Most investors use this tool to complement their observations in the various moving average ranges.

For instance, you have determined that the fifty-day average has crossed over the two hundred-day average. But, the RSI does not show signs of a reversal. In that case, you want to wait a little bit longer until you can see if the RSI shows signs of a potential change in trend or if the patterns seen in the fifty-day average is just an outlier.

By combining both the RSI and the moving averages, you can double up on your assessment of trends. Do you recall that I mentioned you should double up on everything? Well, this is a good example of that. You can double up on the sources of your information by checking out that the moving averages say and compare that with the RSI.

If both measures coincide, then you can choose to act right away. If there is a divergence in the information seen in both measures, then you might want to think twice about making a move.

What is it used for?

As stated earlier, the RSI is used to detect trends and patterns in the price of an asset as seen in the oscillation in the price of the asset in question.

In addition, the 30 to 70 range in considered normal. A perfectly balanced RSI would hover around 50. This would imply that the price of the asset isn't moving very much. Consequently, the oscillation is rather stable.

Now, in the event that you do have significant oscillations, the RSI may swing anywhere within that 30 to 70 range. The most significant the oscillations, the greater the potential for a change in the trend. This is generally the case when an asset is looking to break a resistance level.

If you see that the RSI of the asset in question is consistently pushing 70, then pulling back and then pushing back up, you could be witnessing an attempt to break through a resistance level, but it doesn't yet have the support to do so.

On the other hand, you might see the RSI pushing down below 30 and then coming back up. In this case, you might be seeing the asset's price attempt to break the floor, but it doesn't yet have the support needed to do so.

If you are seriously thinking that the asset might be looking to break a resistance level, you could adjust the ends of the RSI to 20-80. In which case, you could visualize if the asset really does have support at those levels or if investors are just pushing the envelope.

Let's use oil prices as a good example.

Oil tends to have significant oscillations, particularly when there are concerns about supply. In the even that external factors, such as natural disasters, pose a threat to the supply of oil, investors become jittery and begin to push the envelope. Now, this is just a psychological phenomenon as there is no indication at the moment that this will indeed happen.

It could be that there is a hurricane looming over major refineries. This is making investors nervous and they are pushing the price up on oil futures. However, since the even hasn't happened yet, they pull back when the price of the futures contracts reaches a given mark.

In this case, the RSI may be oscillating between 70 and 80 but is yet to have the support needed to break through the ceiling.

Now, let's assume that the hurricane loses strength and causes little damage when it touches down on land. So, crisis averted and it's back to business as usual. In that case, you will see the RSI settle back down to a less volatile level.

But, let's assume that a category 5 hurricane hits major refineries and decimates a good chunk of oil refining capabilities. This leaves investors scrambling to secure oil and fuel supplies. The RSI, which had been oscillating between 70 and 80, now suddenly jumps over 80 and closer to 90.

In this case, there has been a break through the resistance level given the exogenous factors that have affected the price of oil. You can safely assume that there is support after this breakout as the concerns of investors were justified by the monster storm.

Consequently, new resistance levels may emerge as a result of the concerns over oil supply. It won't be until there is some stability in oil supply that new resistance levels will form. In such a case, there are two possible outcomes.

One, there are new resistance levels set since the supply of oil will not be guaranteed for a few weeks. In which case, investors are willing to get every scrap of oil in their hands in order to ensure they have enough to cover production.

Two, the oil industry is able to compensate for the loss in production by ramping up production elsewhere. This will allow investors to calm down and allow the price of oil to revert back to its mean as seen in the two hundred-day average.

How can the Relative Strength Index be used to profit?

In this example using oil prices, the RSI would have generated an "early warning" if you will. The trend in the moving averages compounded by the patterns in the RSI would have tipped you off that something big was about to happen.

In addition, news reports of the storm and so on would have provided you with a glimpse of what could have happened. Consequently, you feel that there is an opportunity for you to make money.

Given that the RSI indicated pressure on a resistance level, but wasn't quite ready to break through, then you could have bought into a bunch of oil futures or oil ETFs. When the storms hit, investors would be scrambling to lock in a good price given the events that have unfolded. However, given the very same events, oil futures have begun to skyrocket.

Nevertheless, you hold futures at a much lower price point. So, you can sell them to investors who are desperate to ensure their oil supply. So, unless you are in need of several thousand barrels of oil at your doorstep, you can sell the oil futures and charge a premium on top of the value of the contracts (which would still be lower than the current going rate) or you could swap oil futures for other assets such as stock or bonds.

Either way, the RSI enabled you to visualize the trend before it was actually going to reverse. This allowed you to get into contracts, such as futures, which ended becoming very valuable.

Now, let's assume that the storm hits but nothing happens. You still hold a valuable asset, yet the panic beset on investors did not flourish as expected. Given that a hurricane is an act of Mother Nature, it is highly unpredictable. Nevertheless, you would still hold oil futures at a decent price which you could still sell or swap for other instruments.

With financial markets, timing is indeed everything.

So, when you plan to begin your day trading endeavors, you must make a habit of being on top of as much information as you can. I am well aware that it can be overwhelming at times. That is why it is important to ensure that you have access to reliable, real-time date. This, in addition to your savvy understanding, will help you get in on the ground floor of trading opportunities that other investors are yet to see.

As such, it certainly pays to do your homework. With the RSI, you can go to the top of your class.

6

The secrets to day trading success

In this chapter, we will bring all of the elements which we have discussed throughout this book together. This will enable you to see the entire day trading ecosystem in action in such a way that you can figure out the best way for you to get started on the journey that is day trading.

Begin successful at day trading is a skill that is learned just like any other skill in life. No one is born a pro at stock trading. Mastering stock trading takes time and dedication. The most important thing to keep in mind is the attitude and willingness needed in order to perfect skills, learn from mistakes and be patient.

As discussed in turtle trading, being able to resist the temptation of trying to hit a home run is a vital component of being successful at trading. If you are unable to resist temptation, then you will make investment decisions that may contradict your better judgement. This can lead to mistakes and potentially disastrous results.

As such, we will first analyze some of the best practices which will help you to protect yourself against the most common pitfalls encountered by investors, as well as, avoiding behaviors which can jeopardize the success of your investment strategy.

Best practice #1: Hedge against risk

Yes, we need to have *the* talk. Well… maybe not *that* talk, but the talk about risk.

Risk in an inherent factor in all investment endeavors. There is no sure thing. If you are looking for a sure bet, then you are barking up the wrong tree.

Investing in stocks and financial markets will never be a safe activity. In fact, you should have a full physical done before engaging in stock trading. Now, that might seem a bit dramatic, but it is true.

Engaging in stock trading is a hazardous occupation which has led folks to lose sleep over their investment portfolio. In fact, this is a great reason for day trading: you will sleep better at night.

The reason for this is that by closing all of your position at the end of the trading day, you can be sure of what you have. When you leave positions open for extended periods of time, there is always that fear of uncertainty. As such, it can to an increased feeling of insecurity and uneasiness.

Nevertheless, there are ways in which you can hedge against risk, that is, protect yourself against risk so that you can offset the ill effects of market downturns.

Firstly, the best hedge against risk is diversification.

The old adage "don't put all your eggs in one basket" holds true with investing. Those folks that bet on a single type of asset generally open the door for higher levels of risk. Now, if you are absolutely sure about what you are doing, then you are aware that if something does you wrong, you know what the consequences will be.

So, investors will look to diversify their portfolio in order to hedge against risk. This implies that out of the full 100% of investable assets, in this case, cash, a savvy investor will allocate various amounts across different asset classes. So, you will have an investor put money into stock, bonds, commodities, ETFs, and so on.

The actual proportion of each asset class largely depends on the investor's personal preference. Nevertheless, an investor that has allocated, say, 50% of assets to stocks, may look to add 10% bonds, 10% commodities, and so on. The idea behind these proportions is to make sure that the investor is covered by allowing on asset class to offset the other.

Secondly, hedging against risk can be achieved by playing the odds. If you are in the middle of a bull market, then buying into stocks will seem like a great idea. By the same token, if you are buying to stocks in the middle of a bear market, then you might be in trouble.

Thirdly, there are assets which are a hedge against risk.

We already mentioned bonds which are considered to be a very safe asset class. In addition, other safe haven assets include gold and stock in blue-chip companies such as those traded in the Dow Jones. Blue chip stocks belong to some of the most solid and stable companies in the world. As such, you won't expect them to be filing for bankruptcy any time. However, they are so solid that you will find it to purchase their stock.

Why?

Since these companies are so solid and have such high ratings, investors will scoop up any stock as they know they will not lose money. If anything, they will be able to protect their money. That being said, a rush of investors into this kind of stock may drive the price up due to the sudden interest. This may be reflected in the RSI as a potential breakout.

Now, you won't hear much about gold or other precious metals. But investors do consider gold to be a hedge against risk as it is never expected to lose value, especially over a long period of time. When markets are highly volatile, or the Dollars shows signs of weekend, investors will look to solid alternatives. So, aside from bonds and blue-chip stocks, gold seems rather stable.

The best way to purchase gold would be through an ETF. While you may not actually get physical delivery of the gold, you will get a nice check if and when you choose to cash out.

So, as a part of your contingency planning, take a look at what hedges you can implement in order to deal with risk in your portfolio.

Best Practice #2: Manage expectations

It is reasonable to have high expectations when investing. After all, I don't know of an investor who became a day trader with the intention of losing money. Every investor that I have seen has entered the markets looking to make as much money as possible.

However, managing expectations is so important.

The reason for this is that you may have unreasonable expectations. When you have unusually high expectations, you may be tempted to engage in riskier practices that offer high returns. This is not only foolish, especially if you are inexperienced, but it may also cause you to put your portfolio under needless stress.

So, you can manage your expectations by being aware of what the average returns for the market. For instance, if the average return on the market is somewhere around 5%, then making 5% returns will seem like a reasonable place to start.

Nevertheless, you might be lured by the siren's call of higher returns especially in the derivatives market such as trading in options or shorting stocks. While can this certainly pay off well, it is not the type of trading you want to engage in early on.

As you gain further experiences, you can then look into branching out to more speculative markets such as FOREX. Again, it is well worth to understand what other investors are making. This will help you get a good ballpark of where your investments will take you.

The best way you can get a firm grasp on your expectations is through turtle trading. When you become familiar with the concepts espoused by turtle trading, you will get a good understanding of a methodology that can help take your emotions out of the equation. After all, it is all of those psychological factors that can cause you to make mistakes stemming from rash decisions.

The fear of missing out is one such dangerous approach. So, following the principles of turtle trading can help you manage your expectations wisely. Here is an example of how you can use turtle trading to your advantage.

Let's assume that you are looking to purchase stock for ABC Company. The current share price for this company, at the time of speaking, is $12.50. The two hundred-day moving average has the stock positioned at a range of $11 a share and $14. In both cases, $11 and $14 seem to be resistance levels as there appears to be little support for moving beyond these parameters.

Now, the two-day average has been trading in a much tighter range of $12 to $13. This tighter range is due to the fact that investors are expecting the quarterly earnings report for this corporation. As such, investors are holding off in anticipation of the report.

In this case, there are three possibilities:

1. ABC Corp reports earnings on par with analysts' expectations
2. ABC Corp reports earnings below analysts' expectations

3. ABC Corp reports earnings above analysts' expectations

So, let's take a look at how the markets would react in each case.

- ABC Corp reports earnings on par with analysts' expectations

In this case, ABC Corp's earnings are right on part with what analysts had anticipated. In general, earnings are reported as one bulk number and also as earnings per share. Also, ABC Corp will report its profits per share as a result of their quarterly earnings.

Given the fact that ABC Corp was on par with expectations, there is not much movement expected at its share price. If anything, there might be a pick up in the share price stemming from the earnings report, but then the share price would slide back down to its mean.

As a day trader, you can look to pick up some shares in ABC Corp and ride the upward trend as a result of the optimism generated by the positive earnings report. You can sell once the price begins to sink back to its trend.

Of course, you want to avoid holding on to it for too long as this would cause you to limit your profits.

- ABC Corp reports earnings below analysts' expectations

This is the worst thing that could happen to ABC Corp. If they fail to meet analysts' expectations, then you can be sure that the share price would sink. This could be a chance to pick up its stock on the cheap if you feel that the company is poised to bounce back.

How so?

Well, suppose that ABC Corp had been on a roll for a few quarters. Then suddenly, they missed the mark on their earnings report for one quarter. While some investors may simply choose to dump their positions in ABC Corp, others may decide to hold in anticipation of ABC Corp bouncing back.

Their poor performance for one quarter may be dismissed as an outlier due to any number of factors. However, if this is a trend being observed in the performance of the company. For example, this is the third quarter in a row that it has missed its mark, then you can anticipate that there is something wrong the economy, the company, or both.

In that case, you might want to think twice about keeping your position in this company. If you choose to pick up its stock on the cheap, you might want to wait as long as possible before deciding to pick up some ABC Corp stock. Furthermore, you would have to be convinced that the company will turn around. Otherwise, you might end up getting stuck with stock that isn't going anywhere any time soon.

This is part of the analysis which you must conduct as part of your daily routine. Nevertheless, a subscription to a good premium information service can provide you with enough insight to complement your view of the statistical data available for this stock.

- ABC Corp reports earnings above analysts' expectations

This is the best-case scenario for this company.

In this situation, ABC Corp has exceeded analysts' expectations thereby setting off bullish assessments. Investors are going to want to get a piece of the action and will do their best to strike while the iron is hot.

In such cases, you can make some healthy profits by picking up some stock a few days ahead of the earnings report. This would enable you to get the stock at the going rate and then cash in when optimism is riding high.

One very good quarter may also test resistance levels. In that case, you might want to hold on a bit longer and wait for a new floor to be set. In that even, you can make a good deal.

However, if a strong quarter happens to be an outlier in what has been an otherwise lackluster performance for the company, then you might want to make a short-term profit and walk away. Often, mediocre companies will post fabulous results they ride the wave of positive economic data such as increased consumer confidence.

In addition, tax cuts, trade deals, and other political factors may influence the minds of investors and consumers. This psychological effect generally bodes well for companies thus leading to positive earnings reports.

In the previous examples, we can get a glimpse of how powerful expectations can be. If you are able to set your expectations to the realities of the market, then you can be confident that you will come up a winner every time… even if you lose money.

Unfortunately, many day traders become disappointed and discouraged when they don't make returns are expected. This leads to investors making decisions based on emotion rather facts. Consequently, your ability to keep your emotions in check will enable you to make the best possible decision based on the information which you have at your disposal.

Best Practice #3: Perseverance

One of the most important traits that a day trader can have is perseverance.

Often, day traders become discouraged early one because their first few trades don't make much money if any. In fact, it is quite common to lose some money before gaining traction and making some successful deals.

In that regard, investors may become anxious and simple decide to pull out. While it is important to recognize if day trading isn't for you, it is important to note that giving up early on may rob you of an opportunity to make some decent money.

Nevertheless, day trading, like virtually all types of business deals, is a question of numbers.

In business, it is common to win some and lose some. Of course, you want to win as many as you come and lose as few as you can. With that in mind, it is a question of numbers before you actually make money.

The logic behind this statement is that if you make enough deals, you will eventually make money. By the same token, if you are on a hot streak, you will eventually lose out. So, it is impossible for you to lose out on every deal, and it is impossible to win on every deal.

As such, if you make enough deals, you are bound to win your fair share of them. Given a normal distribution, your win-loss percentage should hover somewhere around 50%. This concept is based on that classic statistical experiment where a coin is tossed to see how many times it would turn heads, and how many times it would turn up tails.

On average, it is a 50/50 split. Thus, you can get a sense that if you research all of your deals appropriately, you follow your fundamentals, and keep your emotions in check, you are bound to make money about half of the time.

The most important thing to keep in mind is that you want the deals you win to yield greater returns than the losses you would take on the deals that don't work out.

Now, a very important word of caution: know when to cut your losses.

This is a classic example of keeping your emotions in check. As a day trader, you might feel compelled to hold on a stock for just a little bit longer before you sell in hopes of it picking up and at least breaking even.

This is a typical mistake that traders make when they let their emotions get in the way. It is often that traders get a sense of desperation when they see a stock's price falling. Therefore, you want to be prepared to pull the plug before the losses get to be too bad. This will allow you to stop the bleeding before the losses really begin to pile up.

But, there is a ray of hope.

Suppose that the stock plummets even further than the point at which you got out. The stock is now significantly lower than when you first purchased it. Consequently, you feel that it is now ready to bounce back. This might be a good time to get back in, at the much lower price point, and make your money back on the rebound.

This can certainly happen especially if the stock is being hammered on a once-off event. However, it may take a lot longer for stock to rebound. So, you would have to assess the possibility of the stock rebounding within a timeframe that would be comfortable with.

So, be sure to keep an eye on the moving average and the RSI. This will give you a good ballpark on if, and when, the stock might rebound. Bear in mind that a solid grasp of the fundamentals will always beat any unfounded gut feelings you may get. In addition, understanding fundamentals will also help you quell any insecurities you may have about your decisions.

Best Practice #4: Practice, practice, practice

Earlier, I made the point about using the demo version of your trading platform of choice before jumping into the real thing.

That is why part of your criteria for choosing a trading platform should be the option of using a demo account.

In a demo account, you have the full functionality of the platform expect that you are playing with monopoly money rather than the real thing. This takes the pressure of making a mistake, but it also gives you the freedom to test out various strategies. You can be conservative, aggressive or a combination of both, while you find your stroke.

Once you are able to get the hang of it, you can begin to see how you could actually make money on real deals. This is important as day trading has its learning curve. You can certainly ride that learning curve without paying the price by trying out a full access demo account.

Some brokerage firms will even let you try it out for a week, 15 days, or some other amount of time in order to entice you to sign up.

But the most important aspect of the platform you choose should be the analytics.

Depending on how good the analytics may be, you will be able to test them out in live combat. This will help you get a sense of how you could use this information in your assessment of potential deals. More importantly, you will see the importance of having analytics throughout the decision process as outlined in the methodology pertaining to turtle trading.

This is key.

When evaluating the functionality of the platform, use the turtle trading methodology described earlier as a checklist. As you visualize how the platform can adapt to your turtle trading approach, you will be able to determine the effectiveness of your trades.

As such, I would encourage you to really keep a close eye on how well the trading platform you choose fits in with your investment strategy.

Perhaps the most important thing to consider when going about choosing your trading platform is the broker behind it. When you choose a reputable broker, who has a track record of running a good trading platform, then you can have confidence that they know what they are doing. Thus, you will have a chance to actually make some money.

This is why choosing the cheapest option may be the most expensive in the long run. The cheaper platforms usually run as a standalone. This means that it will not have any integration with other platforms belonging to other brokers. This will limit your access to both information and individual stocks.

This is something that you can pick up on when you are testing out the platform. As you gain more experience and practice with the platform, you will be able to determine if it meets your expectations. Therefore, you might want to look at a more expensive option. Just be sure to have a clear understanding of how the fees work for that platform. Otherwise, your profits might be zapped by the various fees associated with that platform.

Best Practice #5: Start off slow and build momentum

When most investors start off in day trading, it is tempting to bet the farm.

As we have discussed, betting too much, too soon may lead you to get wiped out before you even get a sense of actually making money.

This is why I advise folks to fund their trading account with the minimum required. So, if the account requires a $500 deposit, then do that. If it requires $1000, then do that.

Why?

Because a costly mistake will not cause you to lose everything you have.

This is something which is very important to keep in mind. Betting the farm may blow up in your face.

When you work your way up incrementally, you are able to build confidence while you learn the ropes of day trading. As you build your confidence, you will be more adept at taking on greater and greater risks in your investment strategy. This will enable you to make larger profits.

Let's go back to turtle trading for a minute.

The point of focusing on trends is that you are able to make a deal on the closest thing to a sure bet. But nothing in life is a guaranteed winner. Nevertheless, your expertise will allow you to recognize good opportunities and tell them apart from the bad ones.

But while you gain that eye for detecting good opportunities, you are going to swing and miss quite a few times. As such, you cannot afford to bet the entire farm on one swing of the bat.

Do you see where I am going with this?

I have seen countless times how folks go in head first. They round up a good amount of funds. They get a couple of successful trades under their belts. They make a few thousand dollars and figure day trading is really that easy. Then, they go all-in on a deal. When they lose, they lose big time.

If you lose your own money, well, what are you going to do?

But what happens when you borrow from friends and family?

I have seen folks get wiped out this way. Marriages break up and family ties are severed.

Don't let that happen to you. That is why you need to work your way up. Start off with a demo account. Build your confidence with that demo account. Make as many mistakes as you can within that trial period. Once you have crashed and burned several times with the monopoly money, you will be ready for the real thing.

Once you have gained a string of successful deals under your belt, you can up the ante incrementally. But, always steer clear of going all-in. You never know what might happen. That is why going all-in is never a good idea.

Sure, you might be tempted to do so. You might be thinking about how you could clobber one out of the park. And, while that is certainly possible, you would need to do your research on a deal that could reap those kinds of benefits.

Think of a scenario such as this one:

XYZ Corp has had a good track record over the course of its existence. It has produced strong results and grown significantly over the last decade. In that time, its stock price has gone from $15 a share to $60. Investors look at this company as one of the most consistent earners in its sector. It is certainly one of the darlings in its industry.

However, a series of bad decisions have cause XYZ Corp to stumble. In the last two years, it went through a failed merger, a massive product recall and a change in its management team starting with its longtime CEO. This recent series of events has caused investors and analysts to question its future as it seems as though the new management team can't find its bearing.

XYZ Corp has been on a steady decline in the last two quarters with its stock price hitting a five-year low of $47 a share. This is $13 down from its previous high. The Board at XYZ is concerned that if this trend continues, the company will begin to seriously suffer backlash due to the loss in confidence from investors.

After a third straight quarter of weak earnings, investors have begun dumping the stock to a point where it is reaching $40 a share. As a savvy investor, you have begun to see the floor for this stock begin to level off at $40. The question now is: will the stock ever rebound?

Aware of the circumstance the company is in, the Board at XYZ Corp has decided to sack its CEO and find a replacement. This would be their third CEO in five years, but a change needs to be made. In addition, the Board has decided to cut back on its product line and focus only on those products which are generating a profit. Some of the products which have been cut are sold under a very popular brand. This has led the company to explore the option of selling its brand to another suitor.

The leaner version of XYZ has hired a very well-respected CEO following their resignation after a long tenure. In addition, the company has also announced that cutback of 150 employees and the restructuring of its largest plant.

This turnaround has been praised by investors and analysts. It is widely accepted that XYZ will now rebound and hopefully turn a profitable quarter in its next reporting period.

As such, you are banking on the stock rebounding from its previous low of $40 a share. On a dip, you bought the stock at $39.50 a share. Since you are convinced that XYZ will turn the ship around, you went all-in. So, now, it's a matter of waiting for the results of the company's makeover.

On the heels of the news of its restructuring, its share price has climbed to $45 a share in a period of about two weeks.

New flash: this is the time to sell!

But, you decide to hold on to the stock. The stock seems to level off at $45 as investors and analysts expect its next quarter earnings.

When the next earnings report is published, XYZ blasts through analysts' expectations. The new, leaner version of XYZ posted lower revenues but doubled its profits from the previous quarters. In addition, its balance sheet reflects the newfound reduction in costs.

Analysts are hailing that XYZ is back. The stock soars and begins to show signs of a recovery. Its share price quickly passes $50 a share and keeps climbing. Analysts figure it will return to its previous high of $60 a share and will test this boundary.

The stock begins to cool off and settles around $55 a share. You cleaned up.

Had you sold earlier on; you would have missed the meteoric rise of XYZ. Surely, you would have regretted having missed out on those tremendous gains. So, it was bold but worth it. You held the stock and won.

Now, let's consider the opposite scenario.

XYZ's has risen to $45 a share on the heels of its restructuring. The stock has been trading in a very narrow rage, around $44 to $46 a share. The anticipation is building as investors and analysts are hoping it will deliver on its promise. The stock seems poised for a breakout if, and when, it can deliver on its expectations.

When the next quarters were published, investors were disappointed. XTYZ crop turned a profit and decreased its costs, but revenue was down, and its profit margin remained razor thin. Investor sentiment has been all but zapped. If XYZ ever rebound, no one really knows.

Now, since you didn't sell back when the stock was at $45 a share, the rapid sell off has triggered a tailspin in the stock's price. Yet, you managed to get out right before the stock's price hit $43. Whew! That was close.

In this example, your investment still turned a profit but no quite what you had expected. In fact, you could have made a lot more money had you sold when the share price hit $45. But since you were expecting to see just how profitable the new version of XYZ was going to be, you held on for far longer than you would have been comfortable with.

The disappointing results caused investors to basically lose confidence in the stock altogether. While you did make money on the deal, you wasted time by going all-in a stock that didn't rally as expected. So, you can consider this to be a loss as you missed out on making other deals by deciding to hold on in the hope of triggering a rebound.

The moral of this lesson is: you made a bet on the uncertain future of a company. You sort lost out on the deal despite actually making money on it. Had you decided to purchase a few shares and allocate the rest of your investable assets in other products, you have made money from the sale of XYZ stock, but you would have also enabled yourself to make profits based on the other investments you made.

This is a good example of how you can hedge risk. Suppose for a moment that XYZ had tanked. All of your investment would have gone down the drain unless you were able to catch it in time. therefore, beware of betting the farm on a single deal. You end up regretting it.

Caveats in day trading

For some folks, day trading has been a source of income which has enabled them to escape the rat race. They have been able to make a decent living and fulfill their lifelong dreams. However, day trading isn't all that it is cracked up to be.

There have been many cases in which day traders have been wiped out by trends in the market which they have been unable to see or unable to react.

The fact of the matter is that day trading is not for amateurs. This isn't the type of thing you can just do on your phone on your lunch break. It takes dedication and skill. A casual investor may not produce the results they expect as dabbling in financial markets is serious business. This requires a great deal of attention to detail in addition to keeping up with the latest developments in the business world.

So, we are going to be taking a look at some of the caveats you need to keep an eye on in order to ensure that you will be profitable as part of your day trading strategy.

Caveat #1: Not putting in the work

The most common trap that day traders fall into is not putting in the work. In other words, not doing their homework. They approach day trading in a haphazard manner and figure that by looking at a couple of charts, they will be able to pick up on trends and make sound decisions. By the simple law of averages, they will make a few successful deals, but may not produce the results they expect.

This will lead to frustration and disappointment as such traders feel they are not making any headway. In addition, they question the effectiveness of the entire practice as they do not see the benefit they can derive from it.

However, the fact of the matter is that they have not put in the work needed to be successful. They do not stay on top of the latest business news. To them, company names might as well be written in Sanskrit as they do not mean much to them.

Furthermore, these types of investors do not feel that they need to spend much time on trading. After all, the system takes care of everything. They set up their buy and sell points and let her rip. Since the system is automated, why dedicate that much time to it?

Most of the time, these types of investors will manage to stay afloat, break even, and every once in a while, hit one out of the park. Unless they are blessed with a superhuman lucky streak, they will not manage to produce results which are good enough to afford the financial freedom.

So, if you believe that day trading is something which you can do in your free time, you are mistaken. That is if you want to actually make some serious money out of it.

The antidote to this caveat is to work hard, that is, by keeping up with business information, reading about the companies which you plan to invest in, and tracking your investments.

This might be hard if you have a full-time job. But that's why you can set up your buy and sell points. You can track your investments from your phone. You can stay on top of everything even if you are not physically at your computer looking through your portfolio.

What this means is that you don't necessarily need to live and breathe day trading. But as long as you make the best possible use of your time and dedicate it to your portfolio, you should do well. As you gain more and more expertise, you will produce better results. With a little luck and lots of elbow grease, you will become a successful day trader.

Caveat #2: Expecting too much, too soon

Recall our discussion on expectations?

This one of the most important caveats that day traders fall prey to. They expect incredible returns in a short period of time.

Unfortunately, there are plenty of books and so-called experts claiming that they have the magic formula to take average folks from the couch and into millionaires in just a few easy steps.

Please bear in mind that there are no magic formulas. Otherwise, everyone would get rich overnight. If such claims were true, we wouldn't be having this discussion.

The truth of the matter is that becoming a successful day trader is like any other skill. It takes time and dedication before you can reel in the big bucks.

The good news is that it shouldn't take you years before you master this skill. In fact, it can take you as little as a few weeks before you get a firm grasp on the concepts and ideas that are needed in order to become truly successful at day trading. Nevertheless, if your expectations are too high at the outset of your trading endeavors, you may be disappointed when your initial results are from spectacular.

Now, that isn't to say that you can't knock the cover off the ball from the get-go. After all, it is quite possible for you to go on a tear and make more money than you had ever anticipated. But the reality of trading has shown us that it takes time before you can knock the cover off the ball.

Whatever your chosen industry, stocks, commodities, or asset, you need to focus on what the average market returns are. This should be your baseline. If you can consistently deliver average market returns right from the start, then you know you are doing a great job. As you engage in big and better investments, you can expect to reel in a big fish here and there.

Best of all, an incremental approach, such as that which is espoused in turtle trading, will enable you to deliver consistent results. As you build confidence and momentum, you could feasibly reach a point where you could consider quitting your day job.

Now, how long something like that actually takes, remains to be seen.

It is not uncommon for people to quit their jobs, especially if they are bad ones, within a few weeks of them starting their day trading career. While I am not stating that you will be able to this right away, you will in time.

That is why the antidote to this caveat is having realistic expectations and realistic targets. If you can manage your expectations accordingly, then you will most assuredly reach your goals and dreams within a reasonable time frame. Others have done it and so can you.

Caveat #3: Becoming overconfident

So, let's say that you have followed all of the guidelines contained herein. You have played by the rules and you have mastered day trading to a point where you are now poised to leave your day job. Sounds like you have it made.

As you gain more and more experience, you notice how a quick glance at charts and cursory reading of headlines is enough for you to plot your course for that trading day. You make a few good deals and call it a day. You now have so much more free time to spend with family and loves ones. You don't have to worry about getting your paycheck as you have your basic needs covered.

This type of success breeds overconfidence.

You become caught up in your own hubris to a point where you believe you can do no wrong. You don't think that it is possible for you to fail catastrophically. After all, you took your lumps early on and made the most of it.

As you up the ante on your deals, you begin to make more and more. You are confident in your abilities. You have even gone as far as teaching others on your way and methods.

However, all it takes is one bad deal to shatter your confidence.

This happens when you feel like you can do no wrong and you make a bet on a deal that you wouldn't have otherwise done. You know, in your gut, that this deal has the potential for trouble. Yet, you don't listen to the voice in your head. You go ahead and take the plunge.

Depending on the size of the hit you took, you could leave with a serious dent in your portfolio, or you could be wiped out altogether.

Stories of maverick traders abound. Guys who think they have the game down cold. These are the guys that figure they can do no wrong and no one can touch them. They feel invincible especially given their track record.

But, trading is often a cutthroat business. Investors will lose complete faith in you after one deal. It's not that you have suddenly lost your mojo, it's just that that's the way the business is.

Think of a high-profile lawyer who goes on a roll. This lawyer wins a string of high-stakes cases until they take one case that is too much to handle. When they lose the case, all of sudden questions abound regarding this lawyer's abilities. Clients being to question their judgment. Now, we're talking about a guy who was on a roll and had that winning streak snapped. However, all it takes is one bad case to shatter confidence in an attorney.

The same thing happens with traders. One bad trade can spell the end of a successful career. As a day trader, though, you will not be held up to such harsh scrutiny. Yes, your family and friends may question as to why you made that bet, but ultimately, the biggest loss of confidence will be in yourself. If you begin to question yourself and your abilities, it will be nearly impossible for you to get on a roll again.

So, what is the antidote to this caveat?

Due diligence.

If you keep your wits about you and always take the time to do your due diligence, especially when it is a new type of deal, you will always come out ahead. You will be able to sniff out potentially bad deals and make the most of the ones you feel are worthwhile. Before you know it, you will be on a permanent roll. While you may not be hitting a 100%, you will be getting hits most of the time.

Again, this is the type of success that builds confidence, not hubris.

Most importantly, keeping your emotions in check is a fundamental skill that you will need to learn early. This is especially true when you hear of talk about a recession, market crash, or any other dire predictions. Bear in mind that even when markets crash, you can cash in. It is as simple as that. If you know and understand how to recognize those opportunities, you can clean up. I am sure that you have what it takes to make it in this business.

Caveat #4: Double or nothing

This caveat goes hand in hand with maverick traders.

The concept of "double or nothing" works this way:

Let's assume that you have bought shares of XYZ Corp. Your bet was $1,000 banking that the stock would rise in value despite the fact that it has gotten considerable negative light. You're confident the stock will bounce back so you plan on buying low and selling high.

After your due diligence, you determine that it is time to make a power play. So, you decide to go all-in.

Much to your chagrin, the deal quickly goes south as far from improving upon its negative performance, XYZ Corp reveals massive losses and is rumored to be filing for bankruptcy. You are shocked and quickly begin to cut your losses.

Sure, cutting your losses was the best thing you could have done as you figure that holding on to the stock for any longer would have left you completely wiped out.

But it's not like you came out of it unscathed. Your portfolio took a serious hit. You are in red for several hundred dollars. Naturally, you want to make your money back. After all, you are not ready to go down without a fight.

So, you figure, it's time for double or nothing.

This is where it gets tricky. You got burned on a $1,000 deal. But in order to make your money back on a double or nothing deal, you need to up the ante to at least $2,000 so that the payoff makes up for the losses you sustained earlier.

On paper, that sounds like a reasonable way to make your money back.

In practice, it is just as risky as the first deal.

Remember one of the core tenets, don't go all in?

If you go all-in on the second deal and come out victorious, then you are indeed a legend. But, there is an equal, or even greater chance, that you will be burned again. Needless to say, this is an unnecessary risk. There really is no need to be a cowboy if you have a sound strategy such as the one outlined in the turtle trading approach.

The antidote to this caveat is keeping your eyes on the prize. You can do this by setting targets. For instance, you are looking to save up some money for the down payment on a new car. So, you assume you need $5,000. You can do the math to determine how long it would take you to get there.

For example, let's assume that you earn $2 per trade on average. That means that you would need to make 2,500 successful trades in order to make those $5,000. In addition, let's say that you make 100 successful trades per day. That means that you would be able to make the money in about 25 days. Let's call it a month just to have some round numbers.

In this example, you have set a logical timeframe for your goals. In fact, making $5,000 in a month is quite a feat. Nevertheless, you know where you are going, and you know how long it will take you to make the money you need for that new car.

Let's assume that you want to cover your living expenses from your day trading exploits. As such, you need $2,000 to pay your bills. That is a target which will give you the guidance you need to make it at the end of the month. You can look for ways to make better profits, or perhaps increase the de amount of trades you make. Either way, you are looking for ways to improve your overall performance.

That way, if the "next big thing" comes along, you might think twice about it. Personally, the only way that I would make such a gamble is if I had already made my $2,000 for the month and had some money left over to play with. Since that chunk of change, be it $5 or $5,000 has been earned in addition to my monthly target, I can confidently gamble with it.

If it pays off, then kudos are in order. If the deal fails, then it is a lesson learned.

Caveat #5: Following the herd

Perhaps the biggest mistake that you can make is following the herd.

One of the oldest axioms in trading is that by the time everyone is talking about a big deal, the ship has already sailed.

How so?

Think about it. If everyone is talking about a bit of news it is because it's already out there. Everyone knows about it. So, how much more do you think the folks on the inside know?

If a stock figure to explode, the guys on the inside have already locked up their positions. By the time you arrive at the party, there won't be that many positions left over. In addition, there will be guys who got in when the stock was dirt cheap. When you decide to get a piece of the action, the stock will be overpriced.

Think about tickets to a game.

If you manage to buy the tickets when they are first up for sale, you will get them at their real price. But what happens if you decide to buy them from a scalper? You don't know how many times that ticket has changed hands. And each time it has changed hands, everyone has tacked their own profit on it.

As such, a ticket that might have cost you $50 at the ticket window will end up costing you $200 on the street. If you have ever bought tickets from a scalper, then you know exactly what I mean.

Truthfully, "herd mentality" is destructive to the novice investor. The reasoning is that if everyone is doing something it is because they know better than I do. But that isn't always the case. Many investors get caught up in silly decisions based on what they believe to be the trend of an asset. This is generally the result of irrational behavior and can only lead to trouble.

The best example of this herd mentality is Bitcoin.

Now, I don't have anything against Bitcoin, or cryptos for that matter. In fact, if the price is right, they can be great investments.

However, Bitcoin is a classic example of irrational behavior. The first guys that got in on Bitcoin back in 2009, got the first few coins at around $5 a piece. They cleaned up when they sold their holdings around the time Bitcoin reached $2,000. But the price of Bitcoin kept soaring until it reached around $20,000 per coin.

This was the valuation of Bitcoin was completely irrational as it was not based on any type of fundamentals such as the actual value it delivered customers. As a matter of fact, most Bitcoin remains locked in up in digital wallets.

The frenzy surrounding Bitcoin was purely speculative. At its peak, the so-called "Bitcoin millionaires" were a counter-culture of their own. Everyone aspired to rake in the dough on the next crypto. Suddenly, the markets woke up and realized that peak Bitcoin mining had been reached. The promise that Bitcoin would revolutionize the world economy came crashing down as most experts understood that Bitcoin mining was unsustainable.

The end result.

Bitcoin plummeted back down to reality.

Bitcoin now sits roughly around $2,000 a coin. While this is significantly higher than other commodities like gold, it is a far cry from its heyday.

The moral of this story is that if you see everyone flocking to a particular investment or asset, you had better think twice about jumping into the race.

The antidote to this phenomenon is making a quick entry and a quick exit. That way, you won't set yourself up as being the last guy to show up at the party and then begin stuck with the check.

So, the next time you get a tip on a hot stock, think twice about it. I'm sure you don't want to be the one who gets stuck with the check.

Case study of a successful day trader

To close off this book, I feel compelled to share a story with you about a successful trader.

Charlie shared his story with me one day when I told him I was planning on writing this book.

Charlie is a great guy. He is very smart and has been successful in the retail industry. He has had several jobs since he left high school but never went to college. He had to take care of his family from an early age especially after his father passed away.

Interesting enough, we met at a mechanic's shop. We still take our cars in for service at the same shop. So, one day we started up a conversation and have been friends ever since. That was over ten years ago.

Lately, I noticed that Charlie's been doing a bit better. He had gone through a rough patch following the 2009 financial crisis when he almost lost his home. He had to sell his car and really tighten his belt in order to keep his house.

He managed to stay afloat but was seriously banged up as a result of the recession. He kept working at a shop he owned and even took on some side jobs just to get ahead. You can say he is a real go-getter.

Throughout this time, Charlie had tried different things, but nothing seemed to get going. One day, we were talking about making money online and I suggested to him that he should look into day trading. After all, he is a bright guy and has a knack for business.

A few weeks later, Charlie comes to me for advice about day trading. I basically told him everything that we have discussed in this book. He thanked me for my help and that was the last time we spoke about the subject.

I see him on a regular basis. We get together for dinner parties about twice a month. But, he never brought the subject up. I assumed that he had looked into it and figure it wasn't for him.

A few weeks later, I saw that he had bought a car. It wasn't new, but it was a very nice used car. He had paid cash for it. I was proud of him because he had managed to keep his home and purchase another car.

As the weeks passed by, Charlie seemed to be getting his swagger back. He was quickly becoming his fun-loving self again. Honestly, I was really happy to see him succeed. Little did I know that he was quietly making a living off day trading.

Given the trust between us, I asked Charlie about his business. He still had his shop in the local mall, but I hadn't seen him hustling around with the other side gigs he had (such as driving for Uber).

He confided in me. He told me that with the advice I had given him, he was able to scratch up $500 by pawning some old jewelry. He used that money to open up a discount brokerage account with one of the country's largest financial institutions.

The best thing about this platform was that he had access to other platforms. Therefore, he had access to virtually every stock exchange in the country. He started off looking for the cheapest stocks he could find. He made pennies on each trade after the transaction fees had been deducted.

In order to avoid getting hammered by taxes, he spoke to an account that goes to our church. She had given him some pointers on how he could set up his account so that he could catch a couple of tax breaks given to wealthy investors.

In a matter of weeks, Charlie went from earning pennies on each trade to earning a few dollars per trade. The secret? He didn't touch the $500. He rolled over all of his profits into the $500 dollars so that it would make his capital grow.

He had doubled his money in a little over 2 weeks. Sure, he took some lumps. But as he put it, he took his lumps during his free trial. He told me how he would spend his lunch breaks conducting trades on the platform. He would also imbibe everything related to the platform when there were few customers in the shop.

By the time the free trial ended, he felt confident he could make a few bucks. In fact, Charlie tells a story about how he went all-in during his demo time.

"Charlie!" I cried out, "that was one of the first things I told you to avoid!"

Charlie just laughed and shrugged. He said, "I had to get it out of my system".

He was lucky the folks at the brokerage firm reset his account.

He learned that going all-in, especially when you are a rookie, can be a huge mistake. His mistake was betting on a FOREX deal. He thought the Euro would tank on the announcement of the Brexit referendum. Well, the Euro didn't tank. In fact, it gained in value as investors were looking to get out of the Pound Sterling. In fact, one of the biggest winners was the Euro.

It was a tough pill to swallow, mainly for his pride. He figured that the Brexit referendum was a once in a lifetime deal. And he was right. The problem is that he bet on the wrong horse.

He also told me about how much he had learned from online classes and videos regarding the calculation and uses of the moving average. He was very surprised to see how a chart can reveal so much information about a stock and the market in general.

Since then, the first thing he does after getting out of bed in the morning is looking through his news feed to see if there is any breaking news from overseas markets. Then, the goes about his morning routine.

He still works at his shop in the mall. But, he has the staff to help him so that he can devote about two hours in the morning to making trades and research. He personally tends to his best customers while allowing staff to deal with walk-ins.

He then spends a couple of hours after lunch working on trading. He likes to clear his position around 3 pm. That way, he can be ready for the evening traffic that comes into his shop. He closes up around 7 and goes home to his family.

When I asked Charlie about his biggest secret to success he said:

“I don’t follow the crowd”.

Honestly, I did not expect that answer from him. I would have expected something more like he does his research, or he plans ahead. But no, he doesn't follow the crowd.

He told me about how some other guys on a day trader Facebook group told him they were pooling their money to start a Bitcoin fund. This was around the time Bitcoin was touching on $18,000 per coin.

"I got cold feet", he said.

He was adamant about the fact that everyone wanted a piece of Bitcoin. There were guys who were selling their cars and taking out loans to buy one Bitcoin. He admitted that he had been tempted about it but decided that he didn't fully understand the way that Bitcoin worked. So, he backed off.

Sure enough, Bitcoin went down the drain for most of the guys that got in around that point. They held onto it for too long. They were overconfident that they had gotten in on the deal of a lifetime. They were sure that they were going to clean up. In fact, they were the ones who got taken to the cleaners.

Over the last three years, Charlie has made enough money to get out from underwater, get a new car and reinvest some money into his shop. He still sees his shop as his main source of income. He doesn't believe in leaving his shop as its been his livelihood for over ten years.

He is now in his mid-forties and seriously thinking about retirement. He admits he doesn't have much saved in the way of retirement, but he feels that day trading can provide him with enough money to fund his retirement.

After all, the shop pays the bills. So, he is confident that he can use the money from day trading to build himself a nice nest egg.

Given the circumstance of the current economy, he feels that he can save about one million dollars for his retirement and still keep on with his day trading. Unless the stock market suddenly blows up, he will be able to generate enough income to keep paying his bills well into retirement.

He also feels that he will be able to help his kids pay for college and hit retirement virtually debt free.

Does that sound like the lifestyle of a high-flying, jet-setting millionaire?

Not in the traditional sense of the word. He is just an average Joe who wants to make a comfortable living for himself and his family.

He admits that he would love to have a lifestyle on par with the best of them, but frankly, he doesn't need such luxuries. He is able to drive a late-model SUV. He has clothes and watches. He doesn't want for anything at the moment. He is well-off by the standards of most folks.

In addition, he's got some money saved up for a rainy day and has some government bonds stashed away for the long haul. He really seems to be getting the ducks in a row. The most important thing is that he is exactly the same guy he's always been. Even when he was treading water, he was still the greatest guy in the world.

Now that he is much better off than he was before, he is still a great guy. The main difference is that he hasn't let his success cloud his judgment. He tells me that he has two premium business intelligence subscriptions that complement his discount trading platform. He is comfortable paying pennies on each trade. After all, they don't zap his profits every time he makes a deal.

His biggest secret to success is making multiple trades at a time. He is not swinging for the fences. Sure, he's hit a couple of homers, but nothing to write home about. The most he ever made on a trade was about $2,000.

"That's a lot of money to make for an hour's work", he told me.

When I told Charlie that I was writing this book, he asked me to pass one important piece of advice along to my readers.

Here is what he said:

“Don’t think that you will turn your life around the minute you begin trading. You will have to spend time and effort getting better at it. But before you know it, you will be making more money than you could have ever made by working your job. Just don’t let that change who you are”.

Wise words indeed, Charlie.

Conclusion

Well, I hope you enjoyed Charlie's story. I have to admit that it served as an inspiration for writing this book.

After our conversation, I felt I had what I needed in order to start writing. He has been very supportive by encouraging me to write down my ideas.

In fact, it's rather ironic because I once encouraged him to go for it and now, he was returned the favor. I hope that you can find inspiration in Charlie as well.

So, if you have made it this far, it is because you are serious about getting started in the world of day trading and investing in financial markets. Please bear in mind that you have everything that you need in order to get started. You have all of the talent and brain power that you need to be successful.

You see, Charlie wasn't successful because he is smarter that everyone else. Sure, he's not slouch, but he took the time to learn his craft well. He wasn't intimidated by the task before him. He took his lumps, learned his lesson and powered through.

As such, I would encourage you to begin drafting your own trading strategy.

First begin by asking yourself, "why am I doing this?"

The answer to that question could be virtually anything.

You could be interested in day trading because you want to save for a new house.

Maybe you want a new car.

Maybe you're in debt and you want to get out.

Maybe you want to build your retirement.

Maybe you're seeking financial independence.

Whatever your motivation, I am sure that you have what it takes to make in this world of trading and investing. Set your expectations to what is truly achievable and begin following the trends. As you gain experience and savvy, you will be able to make trades easily and comfortably.

Bear in mind that being successful is not as hard as it seems. All it takes is some time and effort. Although, I must say that this is true about virtually anything you set out do to in life.

So, at this point, I would like to thank you for taking the time to read this book. I know that there are other books out there on this topic. It is truly an honor to have you read through these pages. Given that time is our most prized possession, it humbles me to know that you have taken this time to go through this book. I truly hope that it has been interesting and informative.

If so, please be sure to leave a comment. I will be happy to hear what you have to say. In addition, others who might be interested in this book would love to hear from you as well. Your honest opinion is valuable indeed.

Please be sure to tell others about what you have read in this book. I am sure that they will also find this information to be of use to them.

See you next time.