My Stock Market Power – *Day Trading Ebook*

Day Trading Overview

What is Day Trading?

The act of buying and selling securities intra-day with the expectation of making fast profits within minutes to hours is known as **day trading**. Day traders come in all shapes and forms, using mechanical to systematic day trading systems, and can place anywhere from one to thousands of trades per day.

Types of Day Traders

Breakout Traders:

Many day traders will trade momentum and focus on day trading breakouts above swing highs and swing lows while others will look to trade reversal setups after gaps.

Reversal Traders:

Counter-trend traders will look for signs that a stock is topping or bottoming out before they place a trade in the opposite direction. For example, reversal traders use tools such as the TICK, TICKI, Put Call Ratio, volume, etc. to anticipate a change in trend.

Range Traders:

Range traders find stocks that have been trading within support and resistance levels and buy when a stock hits support and sell when it hits resistance. Range traders will be most successful in markets that are choppy and that have no real direction.

Regardless of the type of trader, the most important aspect of day trading is the discipline to follow a set of rules and establishing your own money management principles which you live by.

Day Trading Risks & Rewards

With the use of margin, many day traders can leverage anywhere from 2 to 4 times the cash balance of their account. While this can become very profitable, it can also lead to major losses, especially for newer traders who have not established their loss management principles. In reality, most of the day traders that enter the game lack the discipline to adhere to strict rules and end up losing large amounts of money. These traders can be classified as gamblers. However, a disciplined day trader can take large sums of money down if they have the appropriate systems and money management in place.

Day trading is an up hill battle for most because day traders do not only have to place a winning trade, they have to first offset the commissions before they can go into a profit position.

Commissions

If you are day trading, commissions will be of utmost important for you to manage. Most full service brokers will charge a flat fee for trades while other brokers, such as Tradestation, charge per share. For smaller traders who are just starting out, per share trading is great for practicing with smaller commission.

For those of you trading with a couple thousands share blocks, a flat commission structure will most likely be more beneficial. The key is finding a broker who will provide a platform which will allow the speed to execute orders and also provide for the ability to decide which commission structure is best suited for your trading style. eSignal seems to partner with a few brokers that allow for this.

Pattern Day Trader Status

The SEC has put a barrier in place to protect investors which requires investors to maintain a minimum balance in their accounts if they plan on making at least 4 round trip day trades in a 5 day period. If you plan on day trading, you will need at least $25,000 in your account on a closing basis to continue day trading.

Understanding Specific Time Zones during the Trading Day

Having a successful trading career not only depends on the trading system or style that you use but also depends on other intangibles, such as **day trading time zones**. Understanding the market dynamics during different times of the day will take your trading to the next level.

Think about your trading history and notice if you see a pattern in the different day trading time zones in relation to winning and losing trade percentages. What a day trader must understand is that even if a chart has a great setup, the time at which the trade is placed may be in a day trading time zone which typically starts a countertrend move. For example, many traders who day trade breakouts will be far more successful during the first two hours of the day than any other timeframe during the day. Typically breakout attempts will fail and reverse which will only serve to frustrate the trader and cause you to doubt your approach to trading.

Let's now take a look at the different time zones and understand the general market dynamics during each time zone.

Day Trading Time Zones

The opening bell - 9:30am to 9:50am

The first 20 minutes of the day are the most volatile of the trading day. While this is the most dangerous day trading time zone, it can also provide to be the most lucrative if you understand how to trade in this time frame. It is usually recommended that novice traders stay out of this zone and wait for the imbalances created from overnight news or earnings releases to settle down. Many technical indicators do not work well in this time frame as the volatility is too strong. In most cases, volume will also be the highest of the day during this time.

The Morning Reversal- 9:50am to 10:10am

The first reversal zone of the day begins at around 9:50am and lasts for 20 minutes. This is a very important period of the day for day traders. I look for this time zone to put on continuation trades. For example, a stock may gap down by 10% on the open and then bounce for 10 to 15 minutes coming into this time zone. However, this is where day traders will look for a reversal of the bounce and a continuation in the primary trend. Once the dust has settled from the opening bell, you will be able to more clearly see what the traders in this security will want to do. Volume will drop off a little bit compared to the open but will still be very high during this day trading time zone. This time period is my favorite for trading as the price stability returns to the market but volatility is still present for profitable trading. In strongly trending markets, reversals may be small or non-existent

Low Risk Trading - 10:10am to 10:25am

During this day trading time zone, volatility shrinks again and you want to look for clues in the Dow, S&P, and Nasdaq as to the direction that the market wants to take. This is an opportune time for bigger traders to move the market the way they choose. Watch the tape of the stocks that you track for any indications of direction.

Decision Time - 10:25am to 10:30am

The market will be settled for the most part and most of the days volatility will have passed. There may have been a few reversals in the first hour but during this small zone, many traders will cash out of profitable positions and finish the day while others will position themselves for the next move in the market. I look at this period as a time for consolidation and preparation. The move following this day trading time zone can last until lunchtime.

Final Move of the Morning - 10:30am to 11:15am

This time zone will be the final major time zone as far as morning trading is concerned. It is safer in relation to the other zones in that technical indicators such as the slow stochastic or RSI will have a more pronounced effect than some of the earlier time zones. Be careful near the end of this range as it leads right into the lunch time hour which can start early or start late. A rule of thumb is that the more volatile the preceding day trading time zones are, the greater the chance that this move will extend further into the 11 o'clock hour.

Go Eat your Lunch!! - 11:15am - 2:15pm

Lunchtime trading can be brutal. False breakouts and choppy sideways moves characterize this time period. If you must trade, trade lightly until you have a good track record of putting on winning trades in this time zone. Also, please let me know how you do it! The risk to reward is very high here. Volume will fall out of the market as floor traders and other institutional traders will take their lunches. Don't let this time zone turn profitable morning trading into a loss.

Back to Business - 2:15pm - 3:00pm

Traders will work their way back into the market during this time frame. For the most part, trends have been established and trading during this timeframe will provide you with opportunities where the use of technical indicators is applicable. Remember, the CME closes at 3pm so you will see a pickup in volume due to some of the bond traders coming into the equity and futures markets.

It's GO Time - 3:00pm - 3:10pm

Bond market closes and bond traders will flood the equities markets; watch for sharp moves in either direction. Moves can be fast and large.

Use Caution & Stay with the Trend - 3:10pm - 3:25pm

During this day trading time zone, use caution as you are approaching the 3:30pm timeframe which tends to produce a reversal or a stall of the prior trend. During this zone, you want to stay with the trend that has been established from the 2:15pm and even 3:00pm timeframe but don't get attached to the positions.

Portfolio Re-balancing - 3:30pm - 4:00pm

I tend to recommend traders not trade during the last half hour of the day. There are many funds and institutions rebalancing their portfolios and it can get a bit tricky. If your day trading, you only have 30 minutes max to get out of your trade and I don't like working under that type of pressure. If your an action junkie or like putting on very short term trades, the volatility is there for you to do so.

Conclusion

Personally, I trade up until about 11:00am to 11:30am. The volatility in the morning fits my trading style. That is key; you need to understand who you are as a trader and trade accordingly.

As you can see, the chart setup or systems that you look at are not the only factor in putting a day trade on. Remember, day trading is not absolute; it is a game of odds. Your job is to put the odds in your favor and by utilizing the different day trading time zones that we have discussed, your trading will become more consistent.

Day Trading Styles

There are a number of **day trading styles** that make money in the market. This article provides an overview of multiple day trading strategies that professionals use to make money on a consistent basis. This article will contain the pros and cons of the following day trading styles: (1) breakouts, (2) scalp trading, (3) counters, and (4) trend following.

Day Trading Breakouts Overview

Breakouts is the most common form of day trading styles. It involves identifying the pivot points for a stock and then buying or selling short those pivots in hopes of reaping quick rewards as the stock exceeds a new price level. Breakouts is generally the starting place for newbie traders as it provides a clear entry level and it is a trend following system.

Pros of Breakout Trading

Breakout trading has the potential for quick gains. When key price levels are exceeded it will trigger stop order which gives that initial burst. The key component of a valid breakout is that volume and price accompany the move. This will increase the odds of the trade continuing in the desired direction. Breakouts are also easy to identify. Most trading platforms provide methods for tracking volatile stocks and how close they are to their daily highs or lows.

Cons of Breakout Trading

Breakout trading is by far the most challenging form of day trading. For starters, the levels where trades are placed are the most obvious to everyone regardless of their trading style. Think about it, no matter what system you use on a daily basis, every day trading system factors in the highs and lows of the day. Secondly, the vast majority of intraday breakouts fail. This doesn't mean they don't head higher a day or two later, but if your day trading and there is no instant follow through, odds are you are in a losing trade. Day trading breakouts requires the most discipline as you have very little time to make the call as to whether you are wrong or right. The inability to pull the trigger fast and consistently will mount in to huge losses.

Scalp Trading Overview

Scalp trading is a day trading style where a trader looks to make small gains throughout the trading day. This day trading style suits people who love "action" in the market.

Pros of Scalp Trading

The obvious benefit of scalp trading is the fact you are looking for very little from the market. Another plus is that stop losses are very tight. This will allow the day trader to avoid the monthly "blunder" trade that we all have put on one time or another.

Cons of Scalp Trading

Scalp trading like any other form of trading requires discipline, but due to the large number of trades one will put on during the day, it requires an enormous amount of focus. This "all day focus" can make the trading day a tense situation and can lead to high anxiety for the trader. Also, people go into the business of trading for unlimited earning potential and the idea that you do not have to slave away at a desk all day. Well if you plan on scalp trading, kep a bottle next to your desk, because bathroom breaks are considered a luxury.

Counter Trading Overview

Counter trading is when a trader looks for a pivot point, waits for that pivot point to be tested and trades in the opposite direction. This type of trader has a personality where he or she enjoys going against the grain.

Pros of Counter Trading

Counter trading has a high success rate for day trading. Ask any seasoned trader and they will tell you that intraday trading is nothing more than constant zig zags and head fakes. So, the counter trader is already up in the odds department, because they are going against what the market is telling them. Another plus for counter trading is that when the market fails it often fails hard. Day traders who are able to play morning reversals can make a great living only trading the first hour of the day.

Cons of Counter Trading

While counter trading has a high win percentage, the losers can bring destruction to an account. Even if you win on 4 counter trades, if you do not cut the loser fast, a breakout could run away from you in a hurry. Another downside to trading counter is the next pivot level is too far from your entry, so you will have to set some arbitrary stop limit. Since your stop is not based on an actual price point on the stock, it could get hit quite often. Lastly, setting your price target is also a challenge. Stocks will often appear to make a double top, only to change course just as fast and reclaim the recent highs.

Trend Following Overview

When most people think of trend following, the first thing that comes to mind is a long-term hold buy and hold strategy like the Turtle System. Believe it or not, there are day traders who utilize trend trading systems. The basic method is to look for stocks that are up big in the news and then buy the pullback on these stocks after the first reaction in the morning. Lastly, the trader will place a longer moving average (i.e. 20) and sell the stock if it breaks the line.

Pros of Trend Trading

Trend trading allows the trader to ride a stock for big gains. The day trader will have a limited number of stocks to trade per day, so the commissions are low for this kind of day trading style.

Cons of Trend Trading

If every trader was able to determine which stocks are going to trend all day, there would be a new millionaire created every 30 minutes. No one knows at 10 am, which stocks are going to trend all day long. This means that at best, a trend following day trader can hope to be right 20% of the time. While this trader could still make a killing with such a low win rate there are very few traders that can stick to their trading plan with such a low win rate.

Summary

Every trader is responsible for his or her success. Day trading can be a great money maker, but without a sound trading plan it can push you to your mental limits. The first step in becoming a successful day trader, you have to determine which style of trading best suits your personality.

Level II Quotes - Primary Tool for Active Traders

Level II provides the data for pending orders in the market. It displays the size of the best bids and offers with their respective depths. Day traders use level II to gauge the direction of the market over the short-term. This article will discuss the working parts of the level II screen based on the tools provided from the tradestation brokerage firm. While level II windows will look differently depending on the broker, the functionality is virtually the same.

Level II Window Structure

The level II window structure is comprised of four key components: (1) security information, (2) bid ask window, (3) depth chart, and (4) bid ask orders.

Security Information

The first element of the level II window is the general market information for the security. This information will include the symbol name, direction of the bid tick, last price, and net change. As the bid for the security changes, the arrow will shift up and down and from red to green. The last price is the last recorded price for the security.

Finally, the net change represents the total dollar amount change for the security from the previous day's close.

Symbol	Bid Tick	Last	Net Chg
AAPL	⬇	126.04	1.41

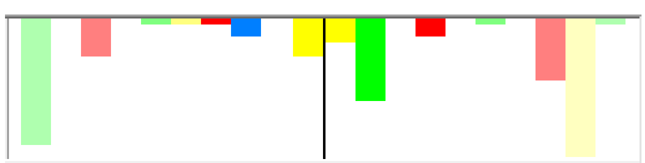
Bid Ask Window

The bid ask data contains the current bid ask prices for the security. This data has four columns: (1) price, (2) depth, (3) size, and (4) spread). The price in the bid ask window displays the current bid by the asking price. The depth represents the number of orders at the given price. So, if you have 3 * 1 then there are 3 buy offers for every 1 sell. The size shows you the actual size for the bid and ask orders. So, if you have 1000 * 100, that means there are traders attempting to buy a 1000 shares at the given price, while there is only 100 shares at the sale price. The spread represents the difference between the bid and ask. The tighter the spread, the better. Day traders should look to trade stocks with high volume and close spreads.

Price	Depth	Size	Spread
122.54 * 122.57	3 * 2	2500 * 600	0.03
122.41 * 122.58	1 * 1	300 * 700	0.17
122.35 * 122.64	1 * 1	0 * 0	0.29

Depth Chart

The depth chart is the visual representation of the orders and their respective size. The color of the graph in the depth chart, will match the color of the bid ask data. If you are attempting to go long, you will want to see the size and speed of the bars on the left side of the depth chart to be larger than the bars on the right. This implies that there are more buyers in the market.

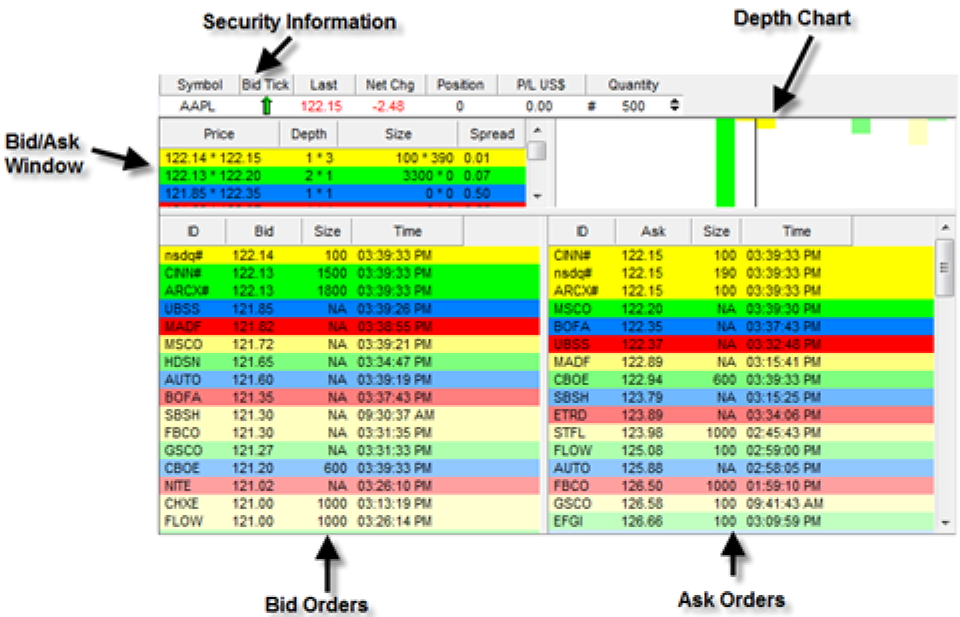


Bid Ask Orders

The bid ask orders displays all of the pending buy and sell orders in the market. There are four components of the window: (1) ID, (2) order type, (3) size and (4) time. The ID represents the ECN that the order is routed through. The order type will be either the bid or ask depending on which window you are watching. The size is the size of the order. The time represents the time that the order was placed. The bid ask window is the consolidated version of all the bid ask orders. Traders will look at all the bid ask orders in the level II window, to gauge the momentum and to see how many orders are at a particular level.

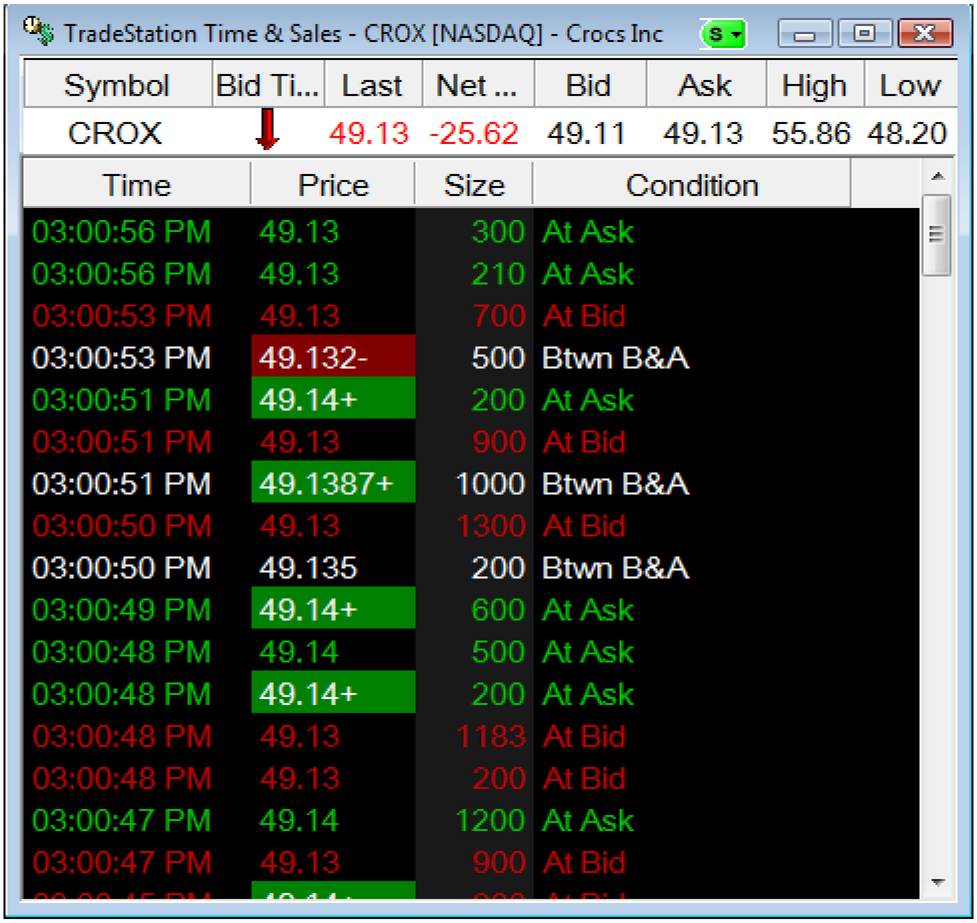
ID	Bid	Size	Time	ID	Ask	Size	Time
ARCX#	121.88	100	03:35:22 PM	nsdq#(2)	121.89	200	03:35:22 PM
nsdq#	121.87	90	03:35:22 PM	ARCX#	121.89	200	03:35:22 PM
CINN#	121.86	700	03:35:22 PM	CINN#	121.90	1400	03:35:22 PM
UBSS	121.75	NA	03:34:29 PM	CBOE	122.05	300	03:35:21 PM
CBOE	121.73	300	03:35:21 PM	MSCO	122.16	NA	03:35:13 PM
MSCO	121.71	NA	03:35:10 PM	UBSS	122.20	NA	03:29:59 PM
HDSN	121.65	NA	03:34:47 PM	BOFA	122.35	NA	03:26:07 PM
AUTO	121.37	NA	03:32:29 PM	MADF	122.89	NA	03:15:41 PM
BOFA	121.35	NA	03:26:07 PM	SBSH	123.79	NA	03:15:25 PM
SBSH	121.30	NA	09:30:37 AM	ETRD	123.89	NA	03:34:06 PM
FBCO	121.30	NA	03:31:35 PM	STFL	123.98	1000	02:45:43 PM
GSCO	121.27	NA	03:31:33 PM	FLOW	125.08	100	02:59:00 PM
NITE	121.02	NA	03:26:10 PM	AUTO	125.88	NA	02:58:05 PM
CHXE	121.00	1000	03:13:19 PM	FBCO	126.50	1000	01:59:10 PM
FLOW	121.00	1000	03:26:14 PM	GSCO	126.58	100	09:41:43 AM
MADF	121.00	NA	03:35:20 PM	EFGI	126.66	100	03:09:59 PM

Example of Level II Window



Tape Reading

From my experience in day trading over the last few years, my most valuable tool became the **time and sales window**, aka. the "**Tape**". The time and sales window basically shows the trader detailed information regarding the order flow for a particular security. The time and sales window provides details on each of the trades that have gone through for that security, such as: Time of Trade, Price, Size of order, and condition of order. Depending on the trading platform, you will have other data points available to you.



After mastering the message of the tape, you will be able to accurately decide when to enter and exit a trade.

How do I get access to the Time and Sales Window?

There are few brokers in the marketplace that offer the time and sales window to their customers. Typically, only trading platforms which are suited for day traders offer this option. I use Tradestation and as you can see in the image above, provides all the key elements that will allow one to effectively read the tape.

How to Use the Time and Sales Window

I am a very big believer that there are two truths in trading stocks. One is price and the other is volume. Tape reading involves both; and if used correctly, dramatically increases the odds of your trading working out. It does so due to the fact that your goal with tape reading is to follow the money.

While some professional traders may not like to admit it, trading stocks is an odds game. Your job as a trader is to put trades on with the highest odds of winning. Trading with the tape requires trading with patience. You cannot go out and buy or short a stock because you see the tape speeding up a bit. You need to be aware of support and resistance levels and also combine the message of the tape with price pattern formations.

Tape reading can be very fast and confusing at times and requires quite a bit of practice in order to get used to understanding the true meaning behind what you are seeing. Remember, every stock is a different story and tends to trade differently. It is wise to review the way in which the "tape" trades for a couple of minutes before entering a trade. Reading the tape requires you to train your eyes to scan for changes in character. I want to discuss a few of these key changes that you should take note of:

Size of Orders

Lets start with size. The size of the orders coming through will help you decide if there is conviction behind the price action you are seeing. When putting on a trade, you typically want to see a flurry of buy or sell orders which have greater than 300 to 400 shares in size. There is no hard and fast rule about this; it is more of a visual cue that your eye gets trained to recognize. Many times, I will see great technical setups in stocks that trade low volume. I stay away from these setups as the message of the tape is not as clear and this lowers my odds of a winning trade.

Order Speed

The speed of the orders is another key component to the message that the tape is giving you. Typically, when stocks breakout through support or resistance levels, not only will the size of the orders go higher but you will see the tape start to speed up. This gives you an indication that there is an interest in this stock at this level and that the interest is larger than a couple small traders buying or selling.

Order Condition

Order condition refers to which side of the bid/ask spread the trade was executed on. When we go long a stock, we want to see many orders being executed at ASK. Conversely, when we go short, we want to see orders being filled at BID. This gives us a clue as how desperate traders are to get into our out of this stock.

Speaking from Experience...

Above, I have reviewed a few basic principles of tape reading but I want to discuss some of lessons I have learned throughout my years of trading that I think you will find helpful when analyzing the tape.

Which stocks are best to trade?

I have received this question many times. The answer to this question for me is simple, I only trade the most volatile stocks of the day. These stocks are the ones which will provide you with strong volume and large interest from the public. They also provide strong and fast moves which you can make larger profits from. Remember, we need to see speed in the tape and that requires a stock with public interest.

Does the tape work better during specific times of the day?

In my experience, the answer to this question is YES. I typically only trade the first 2 hours of the day. This is when the most volatility is present in the market and also when most of the trending moves are made. Typically, lunchtime becomes very choppy and has a different group of traders who are buying or selling for different reasons than the first hour. I am not ruling out trading after lunchtime, however, my results have been less than stellar when I attempted to do so.

Tape Reading with Level 2

The level 2 window provides the trader with an edge. It will show you the sizes of the orders in the market makers book. While the market makers can play games with the level 2 in order to fool traders, in general you want to see high bid sizes and low ask sizes when you go long. On the flip side, you want to see low bid sizes and high ask sizes when you go short or sell out of a stock. Again, its not foolproof but it adds to the odds of your trading winning.

Exiting a trade

This is probably the most difficult part of the trade for most traders. Tape reading helps me get out of the trade by looking for imbalances. When I see a stock moving sharply in one direction, I will immediately look to the tape to offer clues as to when the brake pads will be applied. Again, this skill will take practice to develop. If your short a stock, keep an eye out for the bid side getting heavy and the bid/ask spread widening. This could be a tell tale sign that the juice has been used up.

Bid/Ask Spread at Key Levels

Make sure that stock does not have large bid/ask spreads as it approaches your entry points. You will not have much time to place you trade and if you are trading a volatile stock, you most likely will have to execute the orders at market. Large spreads tell me two things; first, your risk increases significantly when the spread increases. Why? Because most times you will have trouble getting out of a stock with a large spread using limit orders and this can turn a small loss into a big one quite quickly. Secondly, it tells me that there is not that much interest in the stock. If there was, the spreads would narrow and both sides would come as close as possible.

Extremely High Volume Stocks

There is trading high volume and then there is trading extremely high volume. I try and stay away from stocks that trade, for example, 30 or 40 million shares as the message of their tapes can be a bit confusing at times if your a beginner. You may see 14 orders come through at bid with large sizes but that may not mean as much as if the stock was trading less volume. Remember to always keep everything in context. If your stock trades gigantic volume, you should expect a different kind of tape action.

Make price prove the point

Up to this point, we have discussed order size, speed, and condition. While these are all key components of the tape, you must let price prove the point. For example, if you are looking to short a stock at $54 and there is strong order flow selling at bid at that level, my experience has shown me to wait for that level to break. If it does not, you may be involved in a trap that was made to get the weak traders out and then take the stock in the opposite direction.

Don't let your ego get in your way

One of the biggest mistakes that I see many traders making is that they get attached to their positions. In an effort to appease their ego's, they tend to take a trade and stick with it until they are right. Remember, day trading is an extremely fast game and if you do not react with speed, you will be left in the dust. When you make a decision based on that tape action and the stock does not go in your favor relatively quickly, odds are that you are in a bad trade.

Focus

It is extremely important to have utmost focus when you are trading and trying to listen to the message that tape is giving you. Try and stay in a zone and filter out the extra noise. If you are going to put a trade on, be in that trade and nothing else. This will help you feel when it is right to stay in the stock and when its time to get out.

Conclusion

Tape reading is a very important skill to have as a short term trader and can keep you out of many bad trades. Remember, don't be an action junkie, psyching yourself up for every trade. If you do this, you will find a reason to put on bad trades in the heat of the moment. Discipline is key and it takes time to develop. For any new traders looking to try this out, please practice, practice, practice before you put your hard earned money at work. Mastering the art of tape reading will take time, but when you do, you will be rewarded.

Day Trading Money Management

Day trading as a business can be very profitable. It is probably the safest form of investing, as you are focusing on a small number of positions, you are not holding any positions overnight and you are able to enter and exit trades with pinpoint accuracy.

However, many day traders find themselves losing due to poor **day trading money management**.

How Much Should You Risk

The size of your trading position, is in direct proportion to the value of your portfolio. The key to day trading success is to avoid big losers. I can not tell you how many times early in my trading career, that I would be up huge over a 5-day period, only to have a big loser wipe out 50% of my gains. So, to avoid this bad habit, you should only risk a total of 1% of your portfolio on any one trade. Most traders take this rule of thumb, and just put a 1% stop loss out there and when that is hit, they just take the loss. If you have put on around 1,000 day trades or more, you know all too well that a 1% loss can happen. So, in order to avoid taking constant hits, you should allow yourself to take a 2% hit on your position, where the dollar loss from this trade will only represent 1% of your overall account value. Now that I have confused both of us, let me try to say that a little easier. You simply want the total dollar amount invested per position, to equate to 12.5% of your total marginable equity. So, if your account value is $100,000 you will have $400,000 dollars in margin buying power, and should use $50,000 for each trade. Remember, this $50,000 you use only represents 12.5% of your marginable equity. This way if you take a 2% hit, it will only be 1% of your total account value.

Stops are not meant to be hit

It really upsets me when I hear so called professionals advise new traders to set stop loss amounts. Doesn't that seem like a general rule? Trading is a game of precision, and does not operate in the realm of gray. Yes, you need a stop loss order for every trade, but it is a fail safe. In this article we have discussed the power of a 2% stop rule and overall **day trading money management**. But do you think you should let every losing trade hit your stop? Of course not. Now I am not suggesting that we all become rogue traders and trade without stops. The minute you see that the trade is wrong, get out with small hit. Because in the end, the goal here is to see a small number of .25% or .5% losses, while your winners are in the range of 1%-3%. This is how you will win the game. Again, the 2% stop loss is for the unexpected sharp counter move, and it is not your goal to have this stop hit. You should know well before your stop is hit if you are in a bad trade.

Operate in Cash

Day trading is a cash business. The only loan you should be using is with your day trading margin buying power. Do not start or continue to day trade, if you have to take out loans, credit, or use part of your retirement to get in the game. Traders that operate with a positive cash flow and utilize day trading money management rules, have a much higher success rate than traders that start out in the red.

Day Trading Journal

A trading plan is one of the most essential components of the trading game. Your trading plan tells you what to focus on: entry criteria, exit criteria, money management, etc. Unfortunately many traders ignore this important element of the business of trading. Please remember that trading is a business, and your goal in this game is to make money. Your trading plan is nothing more than a guide for how to navigate through the uncertainty and randomness of the stock market. If you do not have a trading plan, you should not be trading. This article will cover the five key elements of a basic trading plan, that you can use to develop your own more customized plan.

1 - Identify Stocks to Trade

Develop a standard methodology for identifying plays. You will have to first ask yourself the question, what is my time horizon for this trade? Day traders will want to focus on stocks in the news, while long-term traders will want to focus on stocks that are developing new business models that show the potential for multi-year growth. Whatever your trading style, make sure you identify the plays that have the highest odds of profitability.

2 - Set Profit Targets

When assessing your trading ventures, be realistic about the profit potential. Look for key resistance and support levels, or set a dollar amount you believe you can make on the trade. Please be honest with yourself during this part of your trading plan. If you set unrealistic targets, they will never be reached and it will only leave you frustrated. As you get better at setting your profit targets, you can begin to increase these targets as your skills improve.

3 - Set Stop Loss Amounts

Before you enter any trade, you should know exactly how much of your portfolio you are willing to risk. This stop loss amount is the worst case scenario for how much money you are willing to lose. Never should you let a loser just float down to your stop loss level if you know you are in a bad trade. Remember, the game is won by keeping your winners larger than your losers.

4 - Set Goals

In every business plan you have to create a roadmap of where you are going. This is no different in trading. You have to set goals for your trading business. How many points do you plan on making monthly, quarterly? For you day traders, how many points do you plan to make per week? Your goals should align with your profit targets and trading habits. These goals will not only be a way to measure your overall performance, but it will take away the uncertainty of the trading business. Unlike 95% of traders, you will know exactly where you will be in 1 year, 5 years, and even 20 years from today.

5 - Review Your Trades

The last part of your trading plan should be to review your log of trades. Take this time to compare how well you executed against your overall trading strategy and goals. Did you follow all of your rules? How well are you tracking against your weekly, monthly, and yearly goals? This review process will keep you honest. There is no point in creating a trading plan if you do not assess how well you are measuring up to your goals. If you take the time to create your plan with these basic elements, you will succeed.

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