How To TRADE STOCKS

Complete Beginners Guide to Profitable Trading

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Introduction

A person new to trading is full of questions and ideas that are both exciting and scary at the same time. A good trader is not a gambler, but a person confident in their skill of staking probabilities to make consistent profits. Anyone can learn to be a profitable trader and I do mean anyone. The financial markets are a vast and complicated environment, but learning how to buy low and sell high is not overly complicated. You don't need to be a mathematical wiz or a financial guru. You need practice and the willingness to learn as you go.

One of the barriers you'll face as soon as you start learning the ways of a trader is reading charts. So that's the first section below. The lessons are straight forward, information dense, and to the point. The illustrations are done in a way that can be used as a quick reference while you put the things you are learning to use.

Naturally, another question is how do you find stocks to trade? Using the art of charting you will be able to compare markets and measure their strength. Later, you will learn simple and accurate ways to measure the strength of a market, sector, and individual stocks. Being able to determine the strongest stocks in the strongest sector in a market that is rising will help you determine which side of the trade to be on. It's also a great way to find stocks to trade. If you identify a stock in a strong uptrend that also happens to be one of the strongest stocks in the sector and is part of a rising market, you have stacked many probabilities to go long. Being "Long" in a trade just means you have bought a stock with the intention of selling at a higher price for a profit. You may not understand the details yet, but keep reading and you will learn how to leverage information in ways that everyone can understand.

Another great way to find stocks to trade is by using stock screeners or filters. These tools can be used in conjunction with the strength analysis or independently. Perhaps you discover that you like a particular trade set up, so screening for stocks that fit your style can help you hunt down the best trades. Screening and filtering can also help narrow your search. These can be great for filtering out stocks that are out of your price range, or don't trade enough volume (shares traded per day).

Once you have stocks to trade, you will need profitable strategies. In the Get in, Get out, Get Paid section you will learn simple trading techniques that anyone can start applying immediately. Not complex oscillators and indicators. Not complicated multilayered orders or algorithms. Just simple plan language explanations on how to effectively pull money out of the markets. These techniques and tactics will not only help you put money in your account, but will provide a strong foundation to build from.

A stock chart will be in one of three trends: up, down, or sideways. Since trading a down trend is not something a novice trader should attempt, the three trading strategies explained later will focus on sideways trends and up trends. When trading down trends, a trader has to "Short" which means sell a stock first then buy it back at a lower price to profit on the difference in between. This requires a margin account because you are borrowing shares to sell and disciplined money management because when you short a stock you could potentially lose more money than you have invested. When you buy (going long) low and sell high, the most you can lose is the amount you invested in the trade because a stock can't go lower than zero. When you short, there is no limit to how high the stock price can go which can causing you to lose more money than you have in your account. Shorting is a very powerful and profitable way to trade but is beyond the skill level of someone just learning how to trade.

Focusing on the long (buy low sell high) side of a trade leaves us with two trends to work with, sideways and up. You will be armed with strategies to capture profits within the range of a sideways trend. Specifically, how to take advantage of a stock that breaks out of a sideways trend and how to capitalize on a stock that is in an uptrend.

These easy to understand market timing techniques that anyone can put to work for them will help you become a profitable trader. Yes, you can time the market. You may have heard that it's impossible but that is simply not true. The people on TV who say you can't time the market are doing just that. It's not possible to be right every time or call the exact bottom or top of a market or stock, but it is possible to get close enough and often enough to be profitable. As you will learn later with proper money management you can be wrong and still be profitable. So don't be discouraged by the wolves telling you it can't be done. You are going to learn just how simple it can be. It's not always perfect and it's not always easy, but it is most certainly possible. With enough practice you can master it.

Part of market timing that doesn't get talked about enough is when to get out or to sell your stock. Not only will you learn strategies for timing when to buy (entry) a stock, but also techniques on when to sell. This is equally important to your bottom line. How to set a realistic price target is a key component of risk assessment which is a cornerstone of good money management, all of which will be covered later. Knowing when to sell if your timing is wrong will protect your capital and leave you with enough money to trade again. Trading is a game of probabilities, not certainties. You will learn how to stack probabilities in your favor and how to protect yourself from big losses so you can live to trade another day.

Have you ever heard of "Penny Stocks?" In my opinion they are very misunderstood because they are the most manipulated. Their low share price makes them enticing for

beginners which attracts the wolves. If you're not careful you will get taken advantage of. At the time of writing this I've been trading penny stocks for over 10 years and never intend on stopping. They are a great way to get started in trading as long as you chose wisely.

Breaking down the myths vs. the truth, highlighting some common pitfalls new traders fall into, and explaining how to find "tradable" penny stocks are all things to come. I will also break down a long term high risk "Home Run or Bust" strategy that should not be used to become a skilled trader, but if successful can yield huge returns. I should mention now that my "Home Run or Bust" strategy should be done only with money you can afford to lose.

Proper money management cannot be understated. Things like profit to risk ratios are a critical part of trading successfully long term. Have you ever heard someone say most traders go broke in the first year, or most traders lose money over time? While I'm not one of those traders, they are true statements. Most traders focus on how much money they can make and forget about how to protect it. Most traders never learn good money management. Most traders don't use "Stops" consistently. A stop is a sell order that you place after you buy a stock to protect you from taking big losses. Once a stop order is placed it will automatically sell your stock at a predefined price you set. More on this later, but using stops to manage your profit to risk ratio will give you the staying power to be a long term successful trader.

Understanding how to use multiple times frames to pick your entry points as well as map out your trade will give you even more probabilities to stack on your side. When you combine share sizing with a strong trade set up and good money management, you can maximize your profits while minimizing your losses. Share size is the number of shares of a stock you control or buy and can be used to maximize profit and create the optimal profit to risk ratio.

There is another side of trading that is rarely talked about, but is common practice amongst seasoned successful traders. The mindset of a trader is as important as the techniques and tactics they use. Establish a trading plan that grows with your skills; controlling your emotions before, during, and after a trade. Focus on the skill of trading and the process of learning the skills to get the results you are after. These are examples of how a successful trader controls their mindset. Something as simple as viewing your account in terms of percentage instead of dollars will dramatically change how you view your trading. Don't think about how much money you can make, think about it in terms of percentage. For example, *I made 2% on this trade instead of I made $200.* This helps you focus on the skill of trading and will make it easier to regulate you emotions. Think on this, learning to make just 2% per month consistently may not seem like much but is a life changing skill. It doesn't matter if you have $2,000 or $200,000 in your account. You have the ability to make money from skill alone. The possibilities of developing the skill of trading are limitless.

Trading is not that hard, but it takes time to develop the skills and experience to be successful. Everything I've mentioned so far is in the pages to come with full illustrations to help you understand and visualize the lessons, which are many.

Trading can be as complicated or as simple as you want to make it. It is very easy to get lost or overwhelmed in the information available. If you like statistics and analytics you can certainly get your fill with market and trading data. If the idea of pouring over hundreds or thousands of data points to extrapolate useful data is overwhelming or not interesting to you than don't do it. The goal is to be a profitable trader, it's not to create fancy spreadsheets or complicated order algorithms. That's not to say those things can't be useful, but everyone trades differently. Success is measured by profits and you can be profitable with simple techniques, complicated strategies, or both and everything in-between. The only right

way to trade is the one that makes you money.

Trading does require you to learn specific skills just like anything else you want to master. These skills are not out of reach for anyone. Driving a car is way riskier than trading, though it may not feel that way to you now. Think of it as building a brick house. Each skill you learn is a brick. As you learn a skill you stack that brick on the last brick. Keep stacking the bricks and you will eventually build a house. Each skill (brick) by itself is easy to understand. As you lay bricks your understanding will increase and you will start to see how each brick supports the other bricks. One day you look up from stacking your bricks and you see a strong brick house that not even the biggest baddest wolf could blow down.

How to Read Charts

Chart Setup

If you look at a chart and all the ways to manipulate it you will quickly be overwhelmed with options. All the fancy indicators and measurements are derivatives of price. They measure in many different ways where price has been, not where it is going. They can be helpful depending on your style of trading, but at the end of the day the most important thing on the chart is price. We are going to focus on price because your success will hang on price movement not MACD, the SMA, or RSI. Price is king, getting good at reading price action will yield the highest reward. Once you get good at reading price, adding an indicator or two to your tool box may be helpful. If you are not good at reading price indicators it will only make things harder for you.

The two important settings control the amount of time you see on the chart and the time frame that the candle sticks represent. Later I'll explain candle sticks in detail, for now just know they are a visual representation of price movement for the defined amount of time they represent. The first thing you want to do is make your chart show you candle sticks. There are many ways to view price data, but candle sticks are the most dynamic. Once you get accustomed to reading candle sticks you won't want to view a chart any other way.

Next find the setting that changes the amount of time displayed on the chart. You should see options for year, six month, week, day, etc. If you select "year" then you will see a years' worth of price data on your chart. If you select six months then you will see six months of price data.

Lastly, find the setting that controls the time frame of the candle sticks. The most common time frame is a day. Most charts will default to year and day meaning the chart is showing a years' worth of price data and the candle sticks represent a day's worth of price action. By changing the candle stick timeframe you can make it show different data. For example, on smaller time frames like one hour or 15 minutes, each candle stick will represent that specified time frame. This is helpful when you are trying to pinpoint an entry or an exit for a trade. Seeing price on a smaller timeframe can show you things in a different way which can lead you to make better trades. We will discuss multiple time frames and the fractal nature of price later, for now understand you can and should change the setting to your chart. Below is an example of a zoomed in chart set to 1 year with each candle representing 1 day.

Chart Setup

Candle Sticks

Candle sticks are a way to illustrate price. The high and the low represent the total range price moved throughout the day. The open and the close, or the top and bottom of the "Body" shows where the price was at the market open and the price when the market closed for the day. The thin lines at the top and bottom are called shadows or wicks.

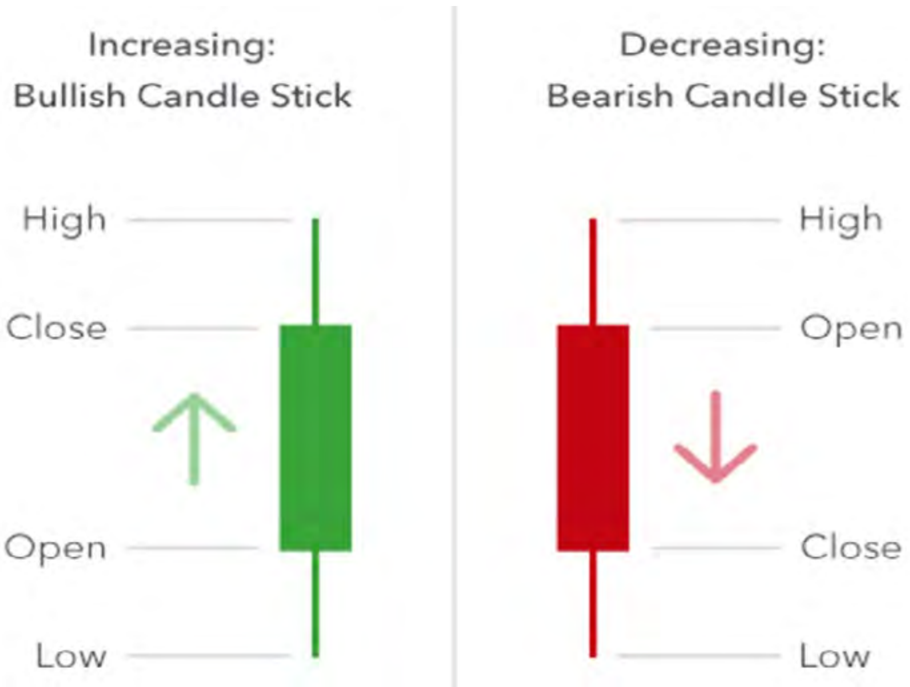
Candles can be different sizes and sometimes only have one or even no wicks. The length of the candle body and wicks are determined by the price action during the open market. The image below helps illustrate the parts of the candle and what each part means.

Any one candle by itself tells the story of buyers and sellers. Who won the day and what the battle looked like. Candles can represent whatever time frame you set them to, but for this example I'm going to use a daily time frame. If the buyers won the day the bottom of the candle body will be the price at which the market opened and the top of the body will be the price at the close of the market. The wicks if any, shows the range the price fluctuated throughout the period the market was open. This applies to any time frame you set the candle to. If you set the time frame to 15 minutes then the candle represents 15 minutes of price action. If you set the candle time frame to one hour the candle will represent one hour and so on.

Candle sticks can be used as their own type of technical analysis. Books have been written discussing all the types of candles and the possible patterns they create and what that could mean for future price movement. That is beyond the scope of what I will discuss here, but it's worth mentioning. While candle sticks are a great way to interpret price action don't get lost in the details of all the ways to use them. Later, a few simple yet powerful types of candle stick formations will

be explained. For now, the most important thing to learn about candle sticks is how the read them. All the fancy complicated patterns and signals can be tools for your tool box, but it starts with understanding them, which is what the illustration below helps with.

Candle Sticks



Pivot Points

Simply put, a pivot point is where price changed direction. Look below for an example of pivot points. These are important spots on a price chart because it shows an imbalance of buyers and sellers. Traders, banks, and financial institutions use pivot points as an indication of strength or weakness. When price is moving up or down, it's displaying imbalance. When price changes direction it is a severe imbalance. Severe imbalances in price are important because they become the identifying marker for trend. Your success will be determined by how well you act on the information the chart is telling you, so understanding the mechanics of price becomes critical to your success.

I caution you about making any of this more complicated than it needs to be. A pivot point is a place on a chart where price changed direction. Why, is a question many people like to speculate about. Regardless of any reason the fact of the matter is at a pivot point price changed direction, which tells you there is an imbalance of buyers and sellers. In turn, this information helps you determine things like trend. Trend is a crucial piece of information which will help you to make decisions.

Pivot Points

Pause

I would like to take a moment and review. So far you have learned how to setup a chart, read candle sticks, and identify pivot points. We are stacking skills or adding tools to your tool box. The markets are vastly complicated and no one can predict accurately all the time. Your success as a trader will be determined by your ability to weigh probabilities. No one has a crystal ball, or all the answers. Anyone telling you the "Secret" is probably not someone you want to listen too. The goal is not to figure it all out. The goal is to learn a few strategies that can consistently make you profits. That's not as difficult as many may think.

Learning how to weigh probabilities to put the odds in your favor is a matter of learning the necessary skills. Understanding what you are seeing in the charts is a fundamental skill necessary to make decisions that will ultimately lead you to profits. Now that you know how to change the setting on a chart, read candle sticks, and identify pivot points it's time to stack a few more skills.

Trends

The trend is your friend until the bend in the end. Price will always be trending one of three ways: up, down, or sideways. Below are illustrations showing examples of each. The standard definition of an uptrend is price moving in an overall upward trajectory. The standard definition of a downtrend is price moving in an overall downward trajectory. A sideways trend is when neither is occurring and the price is moving in an overall sideways trajectory. This causes a range of sorts. While very simple, let's build on those definitions.

I like to identify trends by using a series of higher highs (HH), higher lows (HL), lower lows (LL) and lower highs (LH). I call these the "Pivot Four" because they are pivot points on the chart. So an uptrend can be identified by two HH's and two HL's. A downtrend can be identified by two LH's and two LL's. This may be hard to visualize so take a look at the example below.

To identify the current trend you start by looking at current price then look left. Working from right to left ask yourself this question, "Is the first pivot point a HH, HL, LH, or LL?" Look left again to the next pivot point. Which one of the Pivot Four should this one be? Continuing left on the chart, what is the next pivot point? This process of looking left and labeling the pivot points will reveal what type of trend you are currently in. Knowing what trend you are in will help you make better decisions as the price changes.

It's important to have measurable ways to identify trends like the Pivot Four so you can make decisive decisions. By having specific ways to determine if the trend is changing you will have an easier time deciding when to enter and exit a trade. By understanding what you are seeing you are increasing your ability to weight probabilities, which will increase chances of being profitable.

Sideways Trend

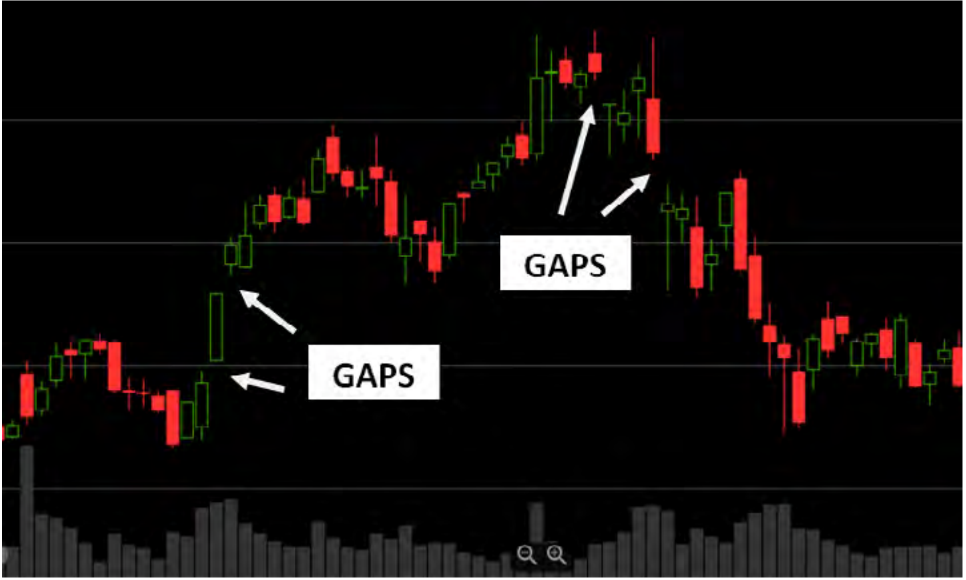
Downtrend Uptrend

Gaps

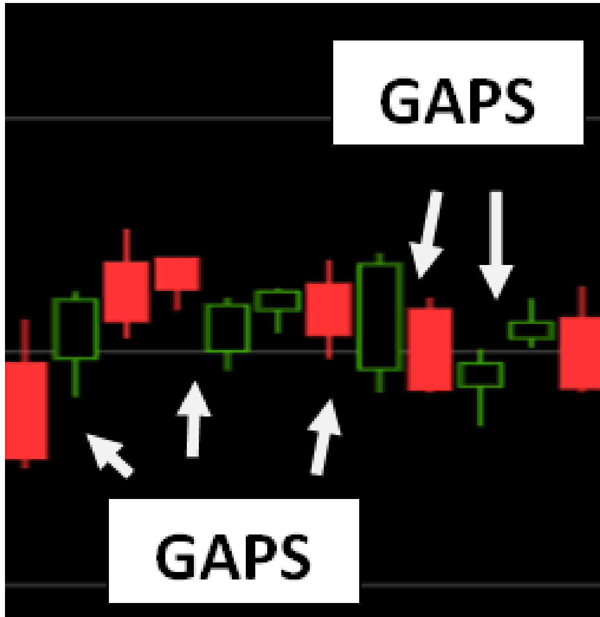
They are exactly what they sound like. A gap is created when the opening price is different than the closing price. This typically happens during off market hours. The US stock market is open from 9:30am – 4:00pm EST Monday - Friday. Each day trading is happening in the post market and premarket hours. If a stock price closed at $15.43 on Monday and on Tuesday the stock price opened at $15.27 that would be considered a gap down in price. On Tuesday this same stock closed at $15.02 having a down day. At Wednesday's start the stock opened at $15.17 causing a gap up.

Below are illustrations of what gaps look like on a chart. Sometimes they are large like the first illustration and sometimes they are small and not so easy to see like in the second illustration. Small price gaps in both directions are common and large gaps are not as common but still fairly regular. If you look closely at almost any chart you will see price rarely opens in the same place it closed. Gaps are a normal part of price movement and can be very profitable if the gap is in your favor.

Large Gaps



Small Gaps



Charts are Fractal

To be fractal means there is a pattern inside a pattern determined by scale. There can be multiple layers and infinite complexities, but we are going to keep it simple and easy. Below are three charts all showing the same price action, but with different time scales. The first is a chart with candles that represent one day of price action. The next is the same amount of time but this time the candles represent one hour. Lastly, the third chart shows just the last four days of the same chart but this time each candle represents 15 minutes. All three are the same stock over the same time period. The only difference is the candles represent different time frames.

Looking at the same price action from different time frames really helps you hone in on good spots to enter and exit a trade. There is no “right” way to read charts, but some general guidance can help you get started in the right direction. Chart reading is more of an art than a science.

If you are looking to be a long term investor then you won’t have much use for a 15 or 5 minute chart. A good heuristic to use is the shorter the time holding a position the smaller the chart time frame you will use to trade.

One thing many successful traders and investors use is multiple time frame analysis. If I was to set up a short term trade like a day trade or a swing trade that last 3-5 days I will use multiple time frames to map out the highest probability. I would start with a higher time frame like a year with daily candles (this means the chart shows me a year’s worth of candles and each candle represents one day) to determine the strongest pivot points. With my style of trading I focus on pivot points for my trading opportunities. I will then use a lower time frame like one hour candles to identify the short term trend. I will then drop down to a 15 minute time frame to pick the area I want to enter the position.

Once I have determined the strongest pivot points, identified the short term trend, and pick the area I want to enter the position, I wait patiently for the price to move into the area I want it to be in. Once price is in the area I want it to be I enter the trade the way I planned and manage it appropriately. Sometimes price never goes to the area I mapped out and that's okay. No trader is right all the time. Sometimes I enter a position and the price moves the opposite way I wanted it to. That's okay too. Cut your losses quickly, learn from your mistake and live to trade another day.

That may seem complicated but it becomes quite simple with practice. The purpose of the section is to explain that charts are fractal and you can and should use that to your advantage. If you are a longer term trader or investor using higher timeframes like three or five year charts to start your analysis would be a good idea, then dropping down to a yearly and then a four or one hour chart. The possibilities and styles are endless. It's worth the time to learn multiple time frame analysis and is easier than you may think.

April 20 – May 3 / Daily Time Frame

April 20 May 3 / Hourly Time Frame

April 27 – May 3 / 15 Minute Time Frame

If this is your first time learning about charts this may seem overwhelming or complicated. Think about when you learned to drive a car. At first you had to consciously think about every little thing. How hard to press the gas pedal, which side the blinker switch is on and all the other countless things that are required to drive safely at high speeds. With practice you eventually committed these tasks to your long term memory and now they are automatic. You don’t even think about how to drive anymore you just do it. This is no different, and much easier than driving. Anyone can learn these things with a little practice.

Finding Stocks To Trade

Top Down Analysis

As with everything in the markets, there are many ways to do things. I prefer the simple approach. It goes like this: start with the Index, such as the Dow Jones, S&P 500, NASDAQ, etc. The index performance is your heuristic and will be what you measure against. Measure the sectors performance within the index against the index performance to identity the strongest or weakest sectors. Now look at the stocks within the sector to find the strongest or weakest stocks. If you're looking for buying opportunities finding the strongest stock in the strongest sector is a good place to start. If you're looking for shorting opportunities following the weakness is an effective strategy.

This may be hard to visualize if you have never done this before. If you're experienced or have poked around the internet looking for ways to measure stock or sector strength you have probably come across "Heat Maps." These are flashy and get your attention with various shades of red and green showing strength and weakness. A simple line chart with an anchor point from a year ago will visually display index and sector performance. There are also basic performance numbers such as percentage above or below a given measuring point. There are many ways to see the same information so use what suits you.

To break this down understand the index is the measuring point. Everything will be outperforming or underperforming the index. This method works with any major index, for this example we will use the S&P 500. I will explain this in the context of finding buying opportunities. The method is the same to find weakness when looking for shorting opportunities,

except you would be looking for the worst performers. In our hypothetical example it's June and the S&P 500 is up 7% since the beginning of the year. At the time of writing this the S&P is broken down into 11 sectors. Think of sectors as categories within the index, like Financials, Health Care and Information Technology to name a few.

To measure the strength of a sector, compare its performance against the index it belongs too. Continuing with the example, we know the S&P is up 7% for the year. Looking at each sector you see 8 of the 11 sectors are up 7% or more and the other 3 are not. Looking at the sectors the highest performers are Energy and Information Technology, both up around 12% for the year. That would mean they are outperforming the S&P by 5% on the year. This is how you figure out what the strongest sectors are within an index.

Diving deeper into this example, sectors are made up of stocks. The performance of the individual stocks within the sector make up the performance of the sector, just as the sectors combined performance make up the performance of the index. To find the strongest stocks in the strongest sector measure the stock performance against the performance of the sector it belongs to. If Energy is up 12% for the year look for the stocks in that sector that are outperforming the sector. This shows you the strongest stocks in the strongest sector.

This is top down analysis. As you can see it is fairly easy to measure strength or weakness. This is a starting point from which you can plan your trading. Having a good understanding of where the stock you are trading fits into the overall big picture is very valuable information. It's also a great way to hunt for things to trade.

How to pick stocks

Picking stocks is a very personal thing and should be decided based on what kind of trading you are comfortable with. Building off the measure of strength and weakness will help you find the right stock for your style.

If you like to trade momentum, that is to say, you trade with the trend and look for impulse moves for a quick gain. Finding a strong stock in a strong sector will increase your probability of finding a short term buying opportunity.

Trading comes down to probabilities, not certainty. No one is right all the time. The goal is to stack as many probabilities in your favor for the type of trade you are executing. There is no right or wrong way of using strength and weakness, but knowing how to measure it can be critical to your success. Knowing how the stock you are trading fits into the big picture will help you be profitable more often. It's simply a tool that will help you decide what to trade and how to trade it.

I've learned by paying attention to sector strength I'm able to spot opportunities early. Back to the example above, Energy and Information Technology are the strongest sectors in June. I've been conducting this sector strength analysis every two weeks and noticed that the Financial sector in the last six weeks has been rising and is accelerating in its accent. Because I have been measuring sector strength every two weeks this kind of thing is easily spotted.

In our hypothetical example the Financial sector is rising faster than any other sector. Since I've been paying attention I have the opportunity to get in on the move up before other traders or investors notice. I look for the strongest stocks within the sector and decided to add four new stocks to my watch list. These stocks are in strong uptrend's and are a big contributor to the sectors performance. Now I will wait for a

pull back in the uptrend of these stocks for my entry or buy point. I lay out simple yet powerful trading tactics later.

What did I just do? I found the strongest stocks in the fastest moving sector that is possibly on its way to being one of the top performing sectors. This gets me in an uptrend early. Buying low and eventually selling high.

Trading Exchange Traded Funds (ETF) is another way to profit from monitoring sector strength. An ETF is a fund that trades like a stock and closely mirrors the performance of the things it represents. Using the Financial sector from earlier, an ETF would allow you to trade the entire sector as if it were one stock. If you would rather trade the sector, ETF’s would allow you to do that.

Stock Screening Filters

Filters are another way to search for stocks to trade. Using filters in addition to the top down analysis can add another level of probability to your trading. Filters can be use by themselves without any other analysis. Maybe you are looking for a particular candle pattern and don't care about any other analysis. What's the right way to trade? Anyway that consistently makes you profits.

There are dozens of filters, on even more free websites, that can be used in thousands of combinations. I will explain some common filters and why they are important as well as some common ways to use filters for simple effective results. Later, I will explain specific filters for penny stocks.

First decide what index, country, sector, industry, etc you want to filter for. I typically want to see a broad range of US stocks across multiple indexes and exchanges so I usually only filter for the US. The option to select which exchange or industry can be useful, but to see the broadest range leaves those selections unfiltered.

A price filter is a way to screen for stocks that are in your price range. I personally won't trade a stock I can't own at least 100 shares of. Most trades I make are between 500 – 1,000 shares. If I'm trading with $10,000 and the minimum share size for me is 100 than I want to filter out stocks that trade for more than $100 per share. You can also use it to filter out stocks that are too low in price such as penny stocks. A penny stock is any stock that has a price per share of $5 or less. Some say $15 or less constitutes a penny stock. I have specific rules I use to trade penny stocks which I will discuss later. For now understand there are stocks that do not trade on the major market indexes (over-the-counter or pink sheets) and can be highly manipulated making them difficult to trade. Some penny stocks trade on the major market indexes and some don't. I tend to avoid the penny stocks that don't.

Why would I only trade 100 shares or more? It comes down to money management. Not to get too far off topic I will briefly explain. If I am only willing to risk 1% on a trade and I expect the stock to have a range of $.15 per share I will adjust my share size to ensure I don't exceed my max risk. I always adjust the share size to meet the criteria of the trade set up; I never adjust the risk of the trade setup. I explain this money management tactic in detail later so let's get back to filters.

Beta is another filter; this measures a stock's volatility in relation to the overall market. A beta greater than 1.0 suggests that the stock is more volatile than the broader market, and a beta less than 1.0 indicates a stock with lower volatility than the broader market. If you are a short term trader you want stocks that move. Volatility is your friend if you're good at stacking probabilities in your favor. Later I explain how to do just that. If you combine favorable probabilities with stocks that have good volatility along with sound money management you have a good chance at being consistently profitable. I don't mean to imply all volatility is good. Crazy swings in price causing spikes in volatility can be close to impossible to time consistently. Finding a sweat spot like a beta range of 1.5 -2.5 is volatile enough to make a good size profit in a relatively short period of time.

Yet another filter is volume; the number of shares traded during the open market hours is called average daily volume. Liquidity is vital to being able to buy and sell stocks at a given price. If there isn't enough volume or shares traded per day you may not be able to trade your shares at the price you want to trade them. If you have 1,000 shares of XYZ for sale at $12 per share, you need someone willing to buy your shares. The more shares you trade the more important this becomes. A stock that trades over one million shares per day has enough liquidity to help you minimize and avoid slippage.

Price, beta and average daily volume cover a few important things about the characteristics of a stock. Simple Moving Average (SMA) can be used to help find things in an uptrend or downtrend. First let's start with what a SMA is. A simple moving average is a selected range of prices, usually closing prices, divided by the number of periods in that range. It averages out the closing price of the stock over time. If you're looking at a daily time frame chart with a 20 day SMA you will see a line across the screen that represents the average closing price of the last 20 days. To calculate the SMA add up the last 20 days of closing prices and divide it by 20 to get the average. Do this continuously each day and this becomes the SMA. The blue line on the chart below is an example of a 20 day SMA.

20 Day Simple Moving Average (SMA)

A simple moving average is called a price indicator and can be set to any time frame you desire. 20 day, 50 day, and 200 day are common. If you are on a smaller time frame chart like a one hour or 15 minute chart the moving average number stays the same but time frame changes to match the chart time frame. For example if you are looking at a daily time frame chart and have a SMA 20 the moving average is calculated each day. If you change the chart to a 15 minute chart the SMA 20 will calculate every 15 minutes to match the period of time of the chart you are using.

Why is all of this important? Well, if I want to find a stock that is in an uptrend I will set the SMA filter for price to be above the SMA 50 or SMA 20. If you are looking for a stock in a down trend it would be the opposite, a stock with the share price below the SMA 50 or SMA 20. It's even possible to filter comparing the SMA's. A strong uptrend will have a share price above the SMA 20 and the SMA 20 line will be above the SMA 50 line, the SMA 50 will be above the SMA 200. As you can tell there are lots of ways to use moving averages.

Get In, Get Out, Get Paid

There are infinite possibilities and ways to trade the markets. Complicated economic theory, in depth technical analysis, elaborate algorithm automation, the list goes on and on. Trading doesn't have to be complicated, it can be simple and with practice it can even become easy.

I want to be clear, no one can be right all the time. Anyone claiming to always be right or to make money on every trade is lying. Being wrong sometimes is part of trading and managing your emotions when you're wrong is a skill all successful traders have mastered or at least learned to control. I define a successful trader as someone that makes more money than they lose over time and over many trades. Anyone can get lucky, but the professionals will be profitable consistently over long periods of time and many trades.

Being profitable doesn't mean you are always on the right side of the trade. You will be wrong; cutting your losses quickly will ensure you have enough money to make another trade. The only right way to trade is the way that consistently makes you profits, period, nothing more to say, mic drop! If you are consistently profitable then you are trading the right way.

I'm going to share with you some simple ways to help you be profitable. Not be a millionaire in 30 days, but easy to understand tactics that with practice you can turn into profitable skills.

Profiting in a Sideways Market

To identify a sideways market start with a chart set to a yearly time frame. Then mark out the range that price is bouncing between. Look below for an example. The pivot

highs and pivot lows won't line up perfectly but you can clearly see price trading in a range that is in a sideways trend.

Maybe you already see where I'm going with this. Buy at the bottom of the range and sell at the top of the range, DUH! It's simple right, but maybe not so easy. It's different when you look at the hard right edge of the chart and you're not sure when to buy or when to sell. Looking at the example below it's easy to point at the candles and think *"I buy right there, then sell right there."* Like a Monday morning quarterback, it's much easier to say what you would have done than actually pulling the trigger in real time when the future is uncertain. Take a look at the example below. The hard right edge shows five red candles. Ask yourself, *"would I buy the stock right now?"*
Why or why not?

Buying a stock while the price is falling is referred to as catching the falling knife. It can be profitable, but higher risk than waiting to see if price turns around. Waiting for price to turn has a little less risk but can be less profitable than catching the falling knife. Which would you chose? Which one is the right way to trade? Whichever you are comfortable with and consistently makes you profits.

The point is both ways of trading can be profitable and it comes down to personal preference. Some people can't stomach buying a stock that is dropping in price, others wouldn't dream of giving up the extra profit if the price pivots and starts to rise. Neither is right or wrong, it's all preference. Each strategy has its own risk. All trades have risk. There is never a sure thing.

Sideways Range

To be profitable you will need to buy low and sell high. Let's discuss buying low. The arrows in the below example showcase pivot points at the bottom of the range. There are other pivot points but these are the points at which the price is at the extreme low of the range from the example I mapped out above. That makes them a higher probability place for price to turn again. Remember, looking at what price has done is not the same as taking a trade when you can't see what's to come. It's easy to point out how price turned around and if you bought at one of those pivot points and sold a few days later you would have a profitable trade. Look at the hard right edge; price is dropping into the bottom of the range that has been mapped out. What will you do?

Like mentioned earlier you can buy while price is dropping into the bottom of the range and hope price reverses and goes back up, or you can wait to see if it reverses and buy once you see price go back up. Both strategies have their own risks and profit potential.

Buy Points

An important thing to remember is trading is risky. You can and will be wrong some of the time. Before you buy know where you are going to sell. This is important so let me say it another way. Never buy a stock without already knowing when you are going to sell it if you are wrong. This is a game of probabilities not certainties. Did I mention it was important to sell if the price goes too far against you? Just in case you missed it, always have a stop in place when you are trading. What's a stop? I'm glad you asked.

It's an order to place immediately after you place your buy order. This stop order will sell your stock automatically if it hits the predefined price you set.

Okay, I think you get the idea that selling quickly if price goes against you is important. Think about this, if you get really good at not losing money when you trade you can't help but make money. That doesn't sound as sexy as how much money you can make, but nothing stops your trading faster than losing all your money.

A "Stop" loss is simple to set up. After you place your buy order you place a sell order called a "Stop" or "Stop Loss" and set the price you want to sell below the price you bought in. To walk through an example, let's say the bottom of the price range is $11.50 and the top of the range is $13.00. As price drops and approaches the bottom of the range you get ready to buy. Price has dropped to $11.62 and starts to go back up. Price is now at $11.70 so you pull the trigger and buy 100 shares. You being a smart trader have already decided that if the price drops below $11.50 you're probably wrong and need to "Stop" your loss and sell. You decide to leave a little wiggle room and place a sell order (a stop order) at $11.45. That way you can't lose more than $0.25 per share or $25, leaving you with enough money to trade again the next time you see an opportunity. A stop loss order won't sell your shares unless it reaches the trigger price. In the example above that would be $11.45. Even if you're not online the sell order will happen if triggered thus safeguarding your account.

Stop Loss

When it comes to timing your buy order it will never be perfect. Sometimes you may get lucky and buy at the exact bottom but don't try to be perfect with your timing. The important thing is to buy low near the bottom of the range. This is basic market timing.

In the example above, look at that hard right edge again. Would you buy this stock right now or wait and see if price reverses and starts heading back to the top of the range? The answer comes down to your risk tolerance and money management. Using the example above stop loss is $11.45. The two trades look like this:

1. Price drops to $11.62 and reverses. As the price rises you buy 100 shares at $11.70. Your stop is at $11.45 which puts your risk at $0.25 per share.
2. Price is falling and at $11.62 you place your buy order for 100 shares. Stop loss is at $11.45 you are risking $0.17 per share.

If you chose trade 2 you will be getting in at a cheaper price then you would if you waited for it to go back up. This lowers your overall risk by $0.08 per share and raising your profit potential. Now consider how often each trade becomes profitable. Trade 2 has better reward to risk ratio but it's wrong more often, while trade 1 is profitable more often, but has a lower reward to risk ratio. How do you choose? Which one is better? It depends on your style and what you want to do. Both strategies work, it just comes down to your personnel preference. I would suggest trying them both and see how they feel.

Emotions play a big role in your trading. You might be surprised how much of your trading style will be decided by your emotions. Pay attention to how these things make you feel, it will help guide and shape your style. You will also learn

what emotions end up causing you to make bad decisions. I won't derail this topic with ways to control your emotions while trading, but it's worth mentioning the importance of keeping them in check while you trade. Have a plan and stick to your plan. These topics will be covered later.

Both of these strategies can result in you getting "stopped out" meaning the price moved against you triggering your stop loss resulting in a losing trade. Losing a little is not a big deal. Losing a lot takes you out of the game. For this trade that didn't happen, you bought 100 shares and the price is rising. Holy cow your money is growing, this feels great. Holy cow what do I do now?

Managing a profitable position can be just as stressful as having a losing trade. All the possibilities start grinding in your mind and that can cause paralysis by analysis. Like entry strategies, exit strategies can be as simple or as complicated as you would like them to be. I like simple so let's stick with that.

Set a target and stick to it or use a trailing stop. Again, these are two simple strategies and there are lots of ways to manage a profitable trade. You will never go broke taking a profit, no matter how small. There is no right and wrong way to do this.

A trailing stop is similar to the stop loss mentioned earlier, however instead of picking a fixed price target to sell your shares a floating number or percentage is attached to your shares. Going back to the example from earlier, you bought 100 shares at $11.70 with a stop loss at $11.45. The price has now risen to $11.94 and you want to protect your profits. You can change the stop loss to a trailing stop set at $0.10. That makes your sell order to follow the price of the stock. As the price goes up so does the trailing stop. This stop can only go up, it cannot go down. If your stock price is $11.94 with the trailing stop at $0.10 would mean your shares would sell

at $11.84. The next day the stock prices rises to $12.13, well the trailing stop follows the highest price set by your stock making the new sell price $12.03. The following day the price falls triggering your sell order at $12.03, because remember a trailing stop can go up as the share price goes up, but can't go down. It "trails" the share price.

Setting a target is just what it sounds like. You pick a place you want to sell your shares and you either get stopped out or you sell at your intended profit target. That sets up like this; you bought 100 shares at $11.70 with a stop loss at $11.45. Your target price is $12.60 so you are only willing to sell if price moves against you and you get stopped out at $11.45 or price reaches your target of $12.60. I know what you're thinking, how do you set the target price? Well I'm glad you asked.

The pivot point is how I determined a good place to buy; they can also be a good place to sell. While price has the potential to go back to the top of the range or higher the farther away the profit target the less likely it will reach it. A good place to start looking is to consider taking some or all of your profits at the most recent higher high (HH) pivot point. Assuming this trade took place at the hard right edge of the chart below the pivot points are outlined in the illustration below. Target one, two, and three or T1,T2, T3 respectively.

There are many ways to do this. Remember you can sell at anytime; any trade with a profit is a good trade. Scaling out of a trade is also an option. Same example, you have 100 shares. At T1 you sell 50% (half), at T2 50% of what's left and finally at T3 the remaining shares. Simply put, 50 shares at T1, 25 shares at T2, and the last 25 shares at T3. Play with the numbers and go with what you are comfortable with. If you want to take all your shares off the table at T1 or before T1 one go ahead. If you want to take 25 share off at T1 and let the rest ride, that's okay too. Again, you can't go broke taking a profit.

Target Price

Even in a sideways market there is a potential profit to be had. Sideways markets don't typically have the fast powerful moves of a strong trend, but can yield nice profits when played carefully. Markets can only be in one of three directions: up, down, or sideways. There are strategies to profit in all of them. The tactics you just learned can be used now. Practice will turn them into skills, which you can use to build on. Don't let the simplicity of this fool you, these tactics work!

Trading Breakouts

A breakout is when price breaks out of the range in which it has been trading. Below is an illustration of what a breakout looks like. These can be very fast moving and sometimes tricky. A breakout can be the beginning of a new trend. It can also be what's referred to as a false breakout. A false breakout is just what it sounds like; price breaks out of its range but then reverses. If the price continues down it's called a false breakout. Sometimes price breaks out, dips briefly back into the range and pops right back out continuing up creating a new uptrend. The dip back down into the range is called a retest.

Breakout

Profiting from a breakout takes good timing and strict rules. Breakouts can move really fast, in both directions. Like everything with trading there are many ways to trade a breakout. A simple way is once price breaks above the top of the range you buy. Easy right, but what if it's a false breakout? What if price retests?

Another way to trade a breakout is to wait for a retest and buy after the price breaks above the range the second time. A breakout that retests and breaks out again has less risk than the first time it breaks out, however price doesn't always retest. If you wait for a retest it may never happen causing you to miss the opportunity. These decisions are up to you and your risk tolerance. Both are effective and both trades should be done with stop losses. Never trade without a stop loss.

As you can see, buying the breakout as soon as it breaks above the range ensures you will not miss an opportunity. Waiting for a retest will have a lower probability of going against you when it breaks above the range a second time, but you will have fewer opportunities. Neither is right or wrong it's a personal preference.

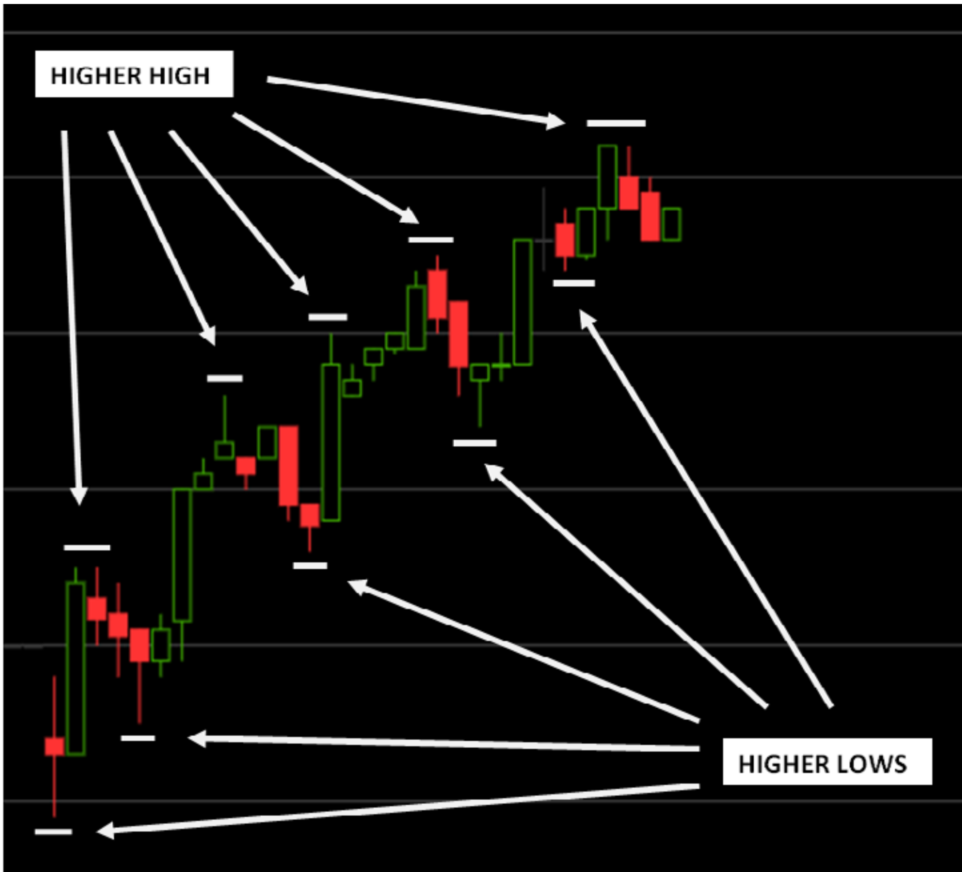
Of course this can all go bad and price creates a false breakout or retests and price still goes down stopping you out. That's how trading goes, sometimes you're profitable sometimes you're not. The trick is to be profitable more often than not.

Let's assume your breakout trade is profitable and now you are on the profitable side of an uptrend. This is a great position to be in, but what now? Next up is trading an uptrend which will cover ways to manage a profitable trade while in an uptrend.

Trading an uptrend

Do you remember what defines an uptrend? Two sequential higher highs (HH) and two higher lows (HL). Below is a classic example of an uptrend.

Uptrend



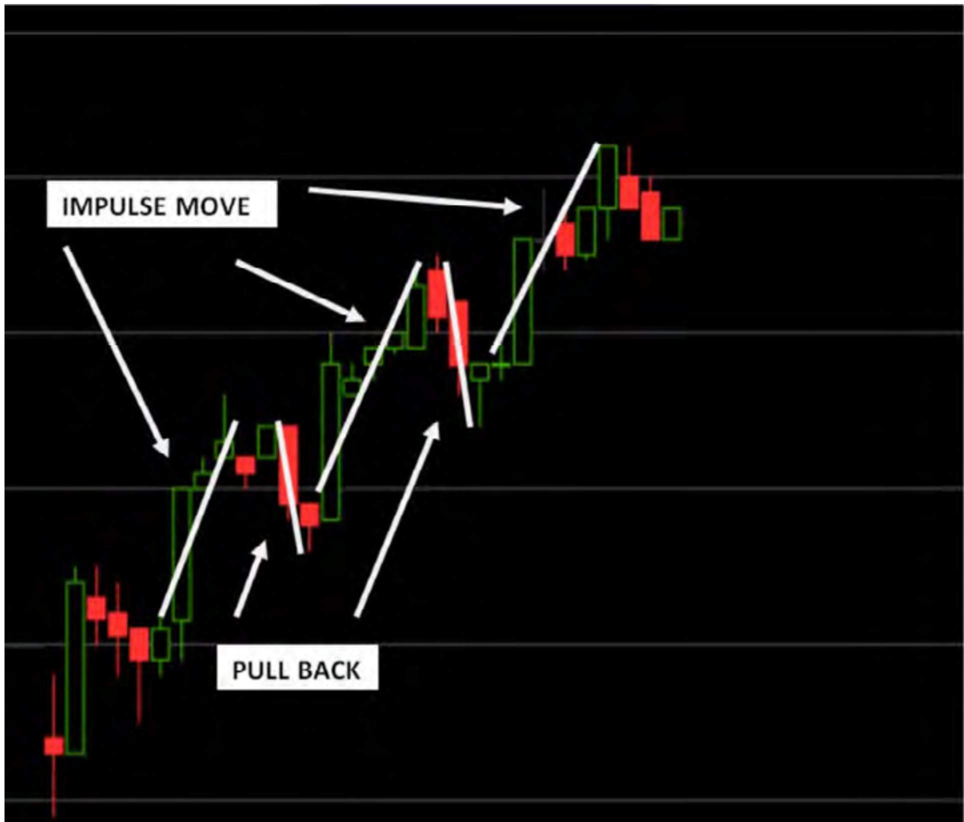
Take notice of how the HL pivot points dip below the last HH. Each one of these HL's represents a buying opportunity. A common indication price is reversing is the long wick at the bottom of the candle. This is called a Hammer formation. We can go very deep in the weeds about different types of candle

formations; however we will focus on just this one. Look at the illustration above and spot the HL pivot points that are hammers. The color of the candle doesn't matter as much as the formation of the candle.

To get the best price of entry when trading an uptrend you must wait for a pull back in price. By waiting for the price to drop below the previous HH you will be able get into the position at a lower cost. The goal of a long position is to buy low then sell high.

It's easy to see on the chart above where you should buy, but deciding when to buy in real time is not the same as looking back in the past at when you should have bought. I have a few rules for entering a position while price is trending up. 1) I only buy pull backs and 2) not until they reverse direction. That sounds simple because it is. The idea is to capture as much of the impulse move with the least amount of risk. The impulse move is the large move up in price and the pull back is the smaller move down in price as seen in the illustration below.

Impulse Move & Pull Backs



As price creates a HH pivot point and pulls back get ready to take action. For the uptrend to continue price will have to create another pivot point, but this pivot point will be a HL. So it goes like this: big impulse move up, then smaller pull back. When the pull back reverses and price starts moving back up pull the trigger and buy. Place a stop a few cents below the bottom of the pivot HL that was just created using the previous HH pivot point as your first profit target.

I like to use the hammer formation as my signal that price is reversing. A hammer does two things 1) it shows price reversing and 2) shows where a stop loss should be placed.

I want to take a moment and explain the Hammer formation candle. In the illustration above there are two red and one green hammer. The color of the candle doesn't matter, the formation and the story it tells does. The Hammer candle was the start of each impulse move in the above illustration. It's the candle with a small real body and a long wick coming out the bottom. This signals a reversal, it shows the buyers are winning over the sellers. It's not enough by itself to make a buying decision but when the price drops and reverses sharply as displayed in the hammer formation it's important to take notice.

Follow the logic for a moment, if the Hammer forms during a pull back in an uptrend, it indicated the sellers are gone and the buyers are back in control. When the Hammer is followed by a green candle showing or price moving higher than the top of the Hammer this shows a continuation of the buyers staying in control. This then becomes your buy signal. Is this going to be right every time? No, it's another example of stacking probabilities to get your desire outcome.

Another way a Hammer formation can be used is in a sideways market. Let pretend the stock your trading is trending sideways. All week you have been watching price fall from the top of the range to the bottom of the range. As price approaches the bottom of the sideways range a Hammer forms creating another pivot point. If the price continues past the top of the Hammer this might be a good time to buy.

Now that you understand the power of the Hammer formation let's get back to the situation we diverged from. Using the illustration above let's say for example price has pulled back and reversed making a Hammer formation which also makes a new HL and I buy 100 shares of this stock. I'm a careful trader and understand the importance of good money management so I immediately place a stop loss two cents under the bottom of the Hammer. Price continues higher but then suddenly falls below the Hammer stopping me out of the

trade. If price falls below the HL the trend might be changing. If the trend is changing so should my tactics. It's better to be stopped out and lose a little than hold on to the stock and be wrong by a lot. By protecting your capital you can reassess a better entry point or another trade with another stock.

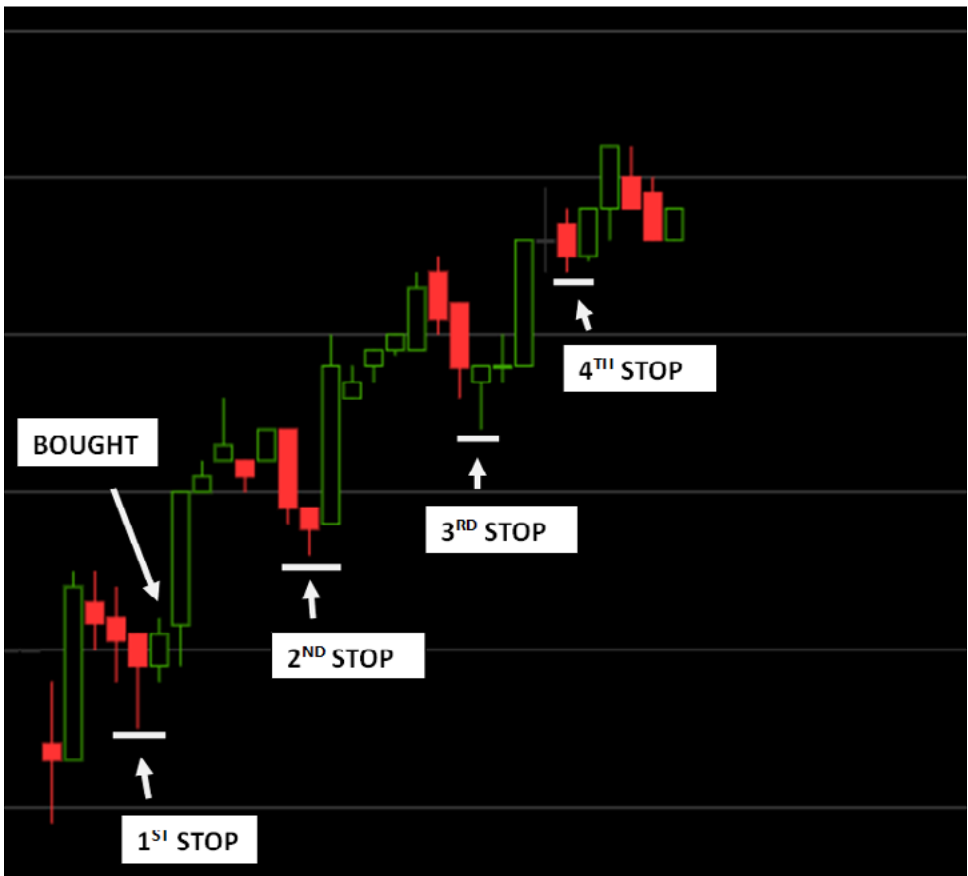
Looking at it another way, let's say price doesn't fall below the Hammer but is well on its way up creating another impulse move. Great, you're in a profitable trade, now what? There are many ways to manage a profitable uptrend; I will discuss three simple ways. 1) Draw a trend line 2) move your stop below the HL every time a new HL is created 3) set price targets then use a trailing stop.

Drawing a trend line is easy to do and gives clear sell signals. You'll need at least two HL's to draw a trend line. As long as the price stays above the trend line hold, if the price breaks through the trend line sell. See the example below.

Trend Line

Another way to decide when to sell is moving your stop below the most recent HL. Every time price pulls back and reverses creating another HL you move your stop just below it. This is simple and a low effort way of managing the trade. As you can see in the example below the buy was made with the 1st stop being placed just below the bottom of the Hammer. The impulse move drove price higher eventually making a new HH pivot point. Price pulled back about half of the impulse move then reversed again creating a new HL. That's when you move the 1st stop to the 2nd stop just below the new pivot HL. Continue moving your stop to the newest HL until eventually price falls below the last HL stopping out the trade.

Move Stop Below New HL



Setting price targets and then applying a trailing stop is a strategy best deployed for short term traders. This strategy can maximize your profit potential in the near term but may be at the expense of possibly missing a bigger long term move later. Below displays how this sets up. The previous HH is the first price target. If price goes higher than the previous HH then replace the 1st stop with a tight trailing stop. Looking at the example below, you would buy as price makes a new HL placing your initial stop (1st stop) below the Hammer with a price target of the previous HH. As price moves above the HH you remove the 1st stop replacing it with a tight trailing stop. A tight trailing stop is a stop that closely follows the high price. Once the price retracts below the trailing stop you will be stopped out. Looking at the illustration below you can see this way of managing your profits can capture most of the impulse move but it will not allow for much price fluctuation for a long term uptrend trade.

Price Target with Trailing Stop

As with many things in trading how to exit a trade all comes down to personal preference. The right way to exit a trade is the way that consistently makes you profit and one that you are comfortable with. Everyone’s risk tolerance and trading goal is different. I would recommend trying different things until you find what fits your style best.

Penny Stocks

Myth vs. Truth

Penny stocks get a bad reputation because they can be highly manipulated, very volatile and most people just don't understand them. A penny stock is any stock that has a price per share of $5 or less. Like mentioned before some say $15 or less constitutes a penny stock. At $5 per share or less a stock can still be traded on one of the majors, for example at the time of writing this $2 is the minimum price to be traded on the NASDAQ. When deciding what penny stock to trade, price is not the most important factor. How it is traded is much more important than the price it trades for.

Most people, when starting out don't want to put a lot of money at risk or don't have a lot of money to start with. Penny stocks offer a great opportunity to trade more shares at a lower cost. It's important to consider things in terms of percentages and ratios vs. dollars and cents. Learning the skill of trading instead of chasing the flashy, high speed trade will ensure you are consistently profitable over time. Good risk management is essential for longevity as a trader. Money management is a large topic in-and of itself, which will be explained in detail later.

Some quick math, if you had $1,000 in your account and found a stock that traded for $2 per share you could own 500 shares. At 500 shares every penny the stock price moves equals $5. That goes both ways, up and down. To make it even simpler every 100 shares equals $1 per penny of price movement. Penny stocks give you the ability to control hundreds of shares at a lower price. Lower price doesn't mean lower risk. Same example of a $1,000 trading account if you lose $100 in one trade it may not seem like a lot of money. Change that dollar

amount to percentage and you realize it is a 10% loss. Losing 10% is a huge loss in terms of having enough money to trade again. Your account won't last if you take to many big losses.

Profiting with penny stocks

Treating your trading as a skill that you will develop over time is a very powerful way to be consistently profitable regardless of the price of the stock. Using penny stocks to learn and practice these skills is a lower cost way to get in the practice rep's while keeping the financial stakes low. It's an effective way to learn what kind of trader you are without putting thousands of dollars at risk.

It is true that the price of some penny stocks (as low as fractions of a penny) can be and are manipulated. A common scam is called "Pump and Dump" which leaves the unsuspecting novice trader in a losing trade having a difficult time selling their shares. An individual or group will create excitement about a particular stock causing people to buy. Before they start the rumors or hype to get more buyers they purchase a large position. As the buyers flood in they sell into the buyers as the price goes up. Eventually the scammers sell off all their shares walking away with huge profits and leaving the uniformed trader holding the bag as the price falls back to where is started or worse. Penny stocks are the target of these financial predators because they can buy hundreds of thousands of shares and attract naïve traders and investors, profiting from their lack of knowledge. In the stock market what you don't know will hurt you. This kind of thing is what has caused penny stocks to get a bad reputation. It's not the stock's fault, it's the traders.

By setting up rules for penny stock trading you can avoid these common pit-falls so many novice traders fall for. You hear stories about how your neighbor or coworker turned $500 into $5,000 and you get lured in by the potential for huge profits.

While that does happen from time to time, more often $5,000 turns into $500 because that genius neighbor or coworker doesn't actually know what they are doing. Sometimes people just get lucky. Let's use a pharmaceutical stock as an example. XZY pharmaceutical is trading for $.03 per share and has been for the last 6 months. You may think to yourself *"if I buy $500 worth of this stock I could own 16,000 shares. If it fails so what, I could afford to lose $500. If it takes off I could be rich."* This is the allure of penny stocks, the chance to get rich quick. It is possible, but not likely and this certainly isn't trading. This is gambling and you will never make consistent profit doing this.

Home run or bust

This strategy is inconsistent but has the potential for big reward. In short you will leverage knowledge of an industry and make calculated guesses. If you guess correctly you could have a home run trade in your hands. How it works is you take small amounts of money and buy 10,000+ shares of very inexpensive stocks across an industry you think has great growth potential. This doesn't take a lot of trading skill because you are hoping for a home run not consistent base hits. What is necessary is a good understanding of the industry in which you want to invest.

Home run strategies are not about building the skill of trading. To keep the baseball analogy, the skill of trading is like getting very good at base hits. You may not hit home runs very often but you consistently get on base. That is the goal of a trader, to get good at base hits to produce consistent profits. A slugger is only interested in swinging for the fence every time they are at bat and will strike out a lot, but when they connect it's for big profits.

Maybe you're interested in being a slugger. Maybe consistent smaller profits are not your style. Maybe you want to be good at getting on base and swing for the fences. There is no right or wrong way to trade. The slugger strategy is simple and goes like this. Pick an industry you like and/or know a lot about. The idea is to learn enough about the industry and the areas within that have the biggest potential for growth.

Take marijuana for example. At the time of writing this the marijuana industry is growing (pun intended) rapidly. Using a free screening website select your preferred industry and filter for stocks with a share price of less than $.10 which will give you a list of stocks meeting that criteria. Here is where the work comes in, take that list and read what each one does. I don't mean an in-depth analysis of each one, just a quick internet

search of the company. The purpose of this is to categorize them. Group the companies that do similar things together. Create as many categories as you need. Within every industry there are subcategories making up the parts of the industry. Continuing with the marijuana industry example, there are growers, distributors and the products that support them. Within the subcategories there are even further subcategories.

Read up on the industry you are interested in building an understanding of how it works. This will enable you to identify which of the stocks on your list have the highest profit potential. The more stocks you pick the higher the potential one of them will be the home run you are looking for. Conducting this deep dive into the industry and the stocks within it takes some time and effort. All while you are still laying your money down on hopes and guesses. Understanding the industry and the stocks within the industry will allow you to make educated guesses. You are not blindly placing money into something and crossing your fingers hoping for the best.

There is no way of knowing which stock if any that you pick will be the home run, but with the extra effort and research you will increase your chances of hitting that home run. Once you buy the stocks you picked out, set price alerts to tell you when price hits your target so you don’t miss out on profit taking opportunities.

Speaking of profit taking, another layer to this strategy is re-investing profits in more stocks within the industry spreading your reach further across the industry, thus increasing the likelihood of hitting the more home runs. Using profits from other stocks to buy additional stocks lowers your overall risk while increasing your potential for profit. Just how much profit you should use is a personal choice. You may not want to re-invest at all and pocket all your profits or you might re-invest all your profits, maybe some combination in-between. Whatever you are comfortable with is the right answer.

Tradable penny stocks

For those of you interesting in the base hits, you will need to learn to find penny stocks that offer good probabilities. As I alluded to earlier, I use specific criteria to screen penny stocks. All the same filters from the "Stock screening filters" section still apply. For penny stocks include a filter for price below $15, $10, or $5. I personally use under $10. I also avoid any penny stock that is label "Pink Sheet" or "Over-the-Counter." I only trade the penny stocks that are traded on major market indexes.

Once I have this list I filter out biotech, real estate, and pharmaceutical companies. This is a personal choice I have made for my trading. It's been my experience these industries are controlled by things that make them very unpredictable. Remember, to get on base often you have to get good at stacking probabilities in your favor. If the probabilities are too unpredictable it will be difficult to be consistent.

At this point you should be left with stocks under $10 that have an average daily volume of one million and a beta of 1.5-2.5, if you're looking for buying opportunities, the stocks should be trading at or above their 50 period SMA. Don't forget to weed out anything not traded on a major market index. Take that list and add one additional step. This is an important step and should not be omitted or overlooked. Make sure the stock is traded by major financial institutions. This is easy to do a simple internet search for the company by entering in the search bar "stock quote XYZ" and using a free website that has the information showing the percentage of the company owned by institutional money. This is usually called "Held by Institutions" or something similar. This is a measurement of how much of this company is traded by financial institutions. The higher the percentage the better, I typically look for 75% or higher. I will add a stock to my watch list with as low as 50% held by institutions but the lower the percentage the less I will

risk on the trade.

The reason this is so important is because this keeps the stock from falling victim to scams like pump and dump and increases your ability to stack probabilities because institutions trade and invest in a very structured rule base way. When a stock is mostly traded by institutions it becomes more predictable. The institutions also add liquidity (more shares traded per day) helping you avoid loss from slippage.

Tools

Money Management

What if I told you with good money management you can be wrong more often than you're right and still be profitable? Money management comes down to controlling your risk. I'm not suggesting avoiding risk, I'm saying control it. Using a "Stop" or "Stop Loss" order to ensure you sell your shares when it's going against you is a must.

Think about this, if you never take a trade without legitimately seeing a possible profit that is 3 times the amount you are risking you can be wrong 3 out of 4 trades and you would break even. That means you only have to be right 25% of the time to stay at zero. By keeping a 3:1 reward to risk ratio you could be wrong more than you are right and still potentially be profitable.

Let's look at an example to help visualize this. Imagine you have $1,000 and you buy 100 shares of XYZ stock for $10 per share ($10 x 100 shares = $1,000). Now we apply money management using the reward/risk ratio of 3:1. Your risk will be 1% ($0.10 per share) and you're expecting the stock to go up 3% ($0.30 per share). Stating it another way, you have 100 shares of XYZ you bought for $10 per share. You expect the price to go up to $10.30 giving you a 3% profit of $0.30 per share ($30 total). You soon realize you are wrong and the price starts to drop. Price per share goes down to $9.98, then $9.94 and eventually reaches $9.90. You sell your 100 shares of XYZ for $9.90 per share keeping true to your rule of never losing over 1% on any one trade.

I bet you thought this example would be a winning trade. The reality is nobody is right every time and if you hear or read about someone that claims to be, run away. Money management isn't sexy or exciting. That said long term success requires good money management. The not so glamorous method I explain above is not the only method, but it's simple and effective.

Nothing is ever perfect in this world and maintaining a perfect 3:1 reward to risk ratio is not likely. Sometimes your trade may have a 5:1 or 8:1 reward to risk ratio. The point is to use a disciplined approach to money management that will help you be consistently profitable over a long period of time. I personally will not take a trade that is less than 3:1 and in practice I try to make trades with 5:1 or better reward to risk ratios.

In trading no one is always right and anyone that claims to be is lying or has only made a handful of trades. By having good money management you will protect your capital when you're wrong so you have enough capital to make another trade. If you don't cut your losses short, you run the risk of having a big loss. Think about this simple fact, you can have one hundred 1% losses, but only five 20% losses. If you know going into this game you won't be right all the time, giving yourself more chances to be right becomes an important part of your strategy.

Stops

Think of a stop as a safety net. It is an automatic order that sells or closes your position in a trade triggered by the price you set ahead of time. Using the example above you buy 100 shares of XYZ at $10, shortly after you place a stop order below that price at $9.90. This stop will only sell your shares if the price reaches $9.90. If price doesn't fall to $9.90 the order never executes. It does not tell your broker to sell at $9.90. It tells your broker to sell if the price falls to $9.90. Like a safety net for a trapeze act, a stop is there in case price falls selling your shares stopping the loss, hence the name "Stop Loss."

A stop gives the ability to walk away from your screen because your risk is controlled by the price you set for the stop. Whether you are watching the trade, taking a nap, or walking your dog if the price reaches your predetermined price the shares will sell. As you can see stop loss orders are a critical part of good money management.

Not all stop loss orders are the same and each type serves different purposes. Two very useful stop loss orders are "Stop Market" and "Trailing Stops." They are both stop orders but they act differently. A stop market order sells or closes your position at the current market value of the stock when the stop order is triggered. A trailing stop follows the highest price of the stock as the stock price increased but does not retract when the price of the stock falls.

A "Stop Market" order is commonly used just after a buy order or at the same time as a buy order. Like mentioned earlier this is your safety net in case you're wrong about your trade. If you set the stop market order at $9.90 when the market value of XYZ reaches $9.90 your "Market" order will be executed. A market order is an order used to buy and sell shares at the current market price. Putting the two things together a stop market order will sell your shares at market value which will

usually be at the price you had selected to trigger the stop order, in this example it's $9.90.

This stop has its limitations and in some circumstances the price you set your stop at will not be the price the shares sell for. This is called slippage and can cost you a lot of money if you're not careful to avoid it. Slippage is when you want to sell your 100 shares at $9.90 but 60 shares sold for $9.90 and the other 40 shares at $9.89. A $.01 slippage is not a big deal and depending on your share size can be common. Let's pretend you bought 50,000 shares of ABC Company for $.02 per share. This ABC Company only trades about 100,000 shares per day. The average number of shares sold per day is called the average daily volume. If you try to sell 50,000 shares all at once the odds are there will not be enough buyers to sell all 50,000 shares at one set price. To avoid big slippage losses stick to stock that have an average daily volume of one million shares or more.

The other way slippage occurs is when price gaps past your stop. Like explained earlier, gaps are when the opening price is different than the closing price from the previous trading day. After the market opened on Monday you bought 100 shares of XYZ for $10 per share. Being a careful trader you placed your stop at $9.90. The price throughout the day fluctuated a little bit and closed at the end of the day at $9.94. Your trade is down a bit, but nothing crazy. After market hours some news event makes the stock price drop. By Tuesday morning XYZ opens at $9.65 triggering your stop market order selling your shares for $9.65. Price gaping past your stop is possible, but not common as long as you know when major events are happening with your stock like earnings or CEO's changing, etc. The price change of a stock over night usually isn't too severe. Slippage is something you want to minimize whenever you can; it certainly is not a reason to avoid using stops.

Okay, same example you bought 100 shares of XYZ at $10 per share placed a stop market order at $9.90 Monday morning. Around lunch time you check on this trade and see you are up $.27 making the share price $10.27. This is exciting and I'll cover managing emotions later. Trailing stops are a good tool for managing a profitable trade. Using a "Trailing Stop" allows the price to go up while protecting your profits. With a trailing stop the price will follow the high price of the stock but it will not go down. This is a handy tool when you want to lock in profits without having to watch to see what happens. It's a set and forget profit taker.

Back to the example, price is at $10.27 and climbing. You set your trailing stop to $.05 meaning the shares will sell at market value if the price drops to $10.22. As the afternoon ticks by the price is moving higher, it's now $10.41 and since you have a trailing stop it has automatically followed the highest price making your stop $10.36. Fast forward an hour and shares of XYZ are now $10.49 make your stop $10.44. Then price falls to $10.44 activating your trailing stop triggering a market sell order for $10.44. Not a bad profit for the day.

Trailing stops are one of my favorite ways to manage winning trades and can be set to whatever amount you feel comfortable with. It can be a set amount like in the example or it can be a percentage.

With more advanced orders you can put a stop in place at the same time you open your position. If you are trading multiple stocks at the same time stops become an indispensable tool. They help protect your money and create peace of mind. With a stop in place you are not glued to your screen. You can enter your position, set your stop and go on about your day.

Process vs. result

I was once told if I stop focusing on how much money I can make and get really good at not losing money I won't be able to avoid making money. When I started viewing trading as a skill that needed to be developed everything changed. Instead of seeing $$ signs when I looked at a chart I saw probability. I started measuring percentage and journaling my trades. I was comparing ratios and figuring out all the ways I could be wrong. No trade is without the possibly of being wrong, but becoming good at spotting all the ways I could be wrong became my new way of finding trades. The trades with the least chance of going against me by default have the highest probably of success.

Tracking your trades allows you to review what was good and what was bad about your trades. Tracking your trades doesn't need to be complicated. Record your entry, your exit, why you took that trade and finally the outcome. After consistently doing this you will be able to pick out patterns in your trading that are good and patterns that need improvement.

Switching your focus from money to percentage will change the way you perceive a trade. The goal is to increase your overall percentage over time. By practicing the skill of trading with the goal of increase your percentage return you can develop your ability to control the amount of money you can make.

Let me put this a different way. If you build you're trading skills to be able to consistently make 2% per month it doesn't matter if you are trading $1,000 or $100,000. You can make 2% consistently no matter what amount of money you are working with. Let's use a baseball analogy; it's the difference between a high batting average instead of always swinging for the fences. You may get a home run every now and again but you will also strike out a lot. Having a good batting average

will give you consistent income and a skill that can provide financial freedom.

Learning the skill of trading (the process) will give you the ability to control the result. So like I was told many years ago, stop focusing on how much money you can make. To have long term success you must get good at the skill of trading.

Have a plan

Have a plan, trade your plan, and adjust as necessary. A trading plan can be as simple or as elaborate as you want it to be. The important thing is you make one and stick to it. That doesn't mean the plan can't change. As you learn from your mistakes and acquire new skills your plan should change along with your skill. When you have a plan and trade your plan it forces you to think out the rules in which you trade by. You've got to have an iron-clad, highly effective process that is also flexible, feedback sensitive, and habit forming.

A good place to start is by asking yourself how much are you willing to risk per trade. Are you a short term trader that needs to be able to execute many trades? Making a rule that states you will never risk more than 1% per trade would be a good idea. Do you like to position trade or swing trade? Maybe a 3-5% max risk would be a better fit. Rules about how you enter trades or what kind of trades you enter are another good place to start. A good example would be only trading with the trend and never against it. Another rule could be to only take trades that have a 3:1 reward to risk ratio.

Rules give you something to measure against. It's your plan so make it what you want. Having a plan that grows and changes with your skills will help you hold yourself accountable. By trading in a rule based way you can determine if the rules you create turn into profits. If a rule doesn't work more often than it does work, scrap it or alter it. If it works more often than it doesn't work, you have found another way to trade profitably.

Consistency in your trading is very important and trading in a rule based way helps you be consistent. Trading is a game of probabilities not certainties. Using rules to trade in a consistent way helps you learn how to weight the probabilities. Each trade comes down to weighting probabilities. A plan with rules gives you ways to measure the probabilities.

Control your emotions

The psychology of trading is a vast topic. It's also something every trader wrestles with. The emotions will never go away, but learning to control them is imperative to being consistently profitable. Your emotions should never be the reason you press the buy or sell button.

That's easy to say but difficult to do. Having a trading plan is one way to help with controlling your emotions for all the reasons mentioned earlier. There are a few hacks I use to help. For example, I don't put money signs ($) on any numbers. I avoid looking at the money in my account. I focus on percentage not dollars. These are small things but can help with looking at your trading as skill building. It may sound silly, but as your account size grows so do the stakes. Focusing on the skill of trading instead of the money in your account will keep the crazy monkey in your brain from taking over.

Every person is different so it is difficult to give specific ways to control your emotions. Everyone has to learn that on their own. Make no mistake it has to be done. Keeping your emotions from driving your decisions will be challenging and maddening at times. The effort you put into ensuring logic and discipline are driving your decisions will be well worth it. The goal is not to block or stop the emotion, it's to control it. Awareness of the emotion is the first step.

Here are some things to be careful of. After taking a loss you may have the urge to take more risk on the next trade to make up for the loss. Revenge trading a particular stock, getting emotionally connected to a particular stock can happen. You're in a losing trade and instead of cutting your losses short you do some math and think it's a good idea to buy more shares. If you buy more shares it lowers your overall share price. If the price turns and goes the direction you where hoping, it will have to move less to get back to break even.

While this math is true the practice is a bad habit to develop and can cost you even more than you expected.

FOMO (Fear of Missing Out) is a common trap and one of the strongest emotions to contend with. This emotion will cause you to forget or ignore your trade plan, your rules, and your risk management. You will think to yourself *if I don't buy now I will miss the move and lose these potential profits.* Remind yourself you have not lost anything because you haven't started. A stock may have a big move up in price at the beginning of the trading day, so you look at the news headlines and read something exciting about the stock. You think *price isn't in a place I would usually buy, but if I don't act now I will miss out.* So, you buy and at the end of the day you get rewarded with a losing trade because the excitement of the news headline drove price higher, but more often than not the news was already priced-in by the professionals and financial institutions so the rise in price is short lived. Traders that are good at shorting (sell high buy low) see something like this a mile away and take advantage of the novice that is trading emotionally. FOMO will wreck an otherwise sound trade plan. Stick with your plan and trade your plan. If you really are missing out on opportunities than adjust your plan, trade that new way consistently, and track whether or not the new change makes you more profitable. There is nothing wrong with changing and adjusting your plan, if fact you should be changing things as you learn. Doing it in a measured way will create new skills and make you a better trader.

There are many emotional traps to beware of. Paying attention to how different trades make you feel will help guide the type of trading that fits your personality. If you are day trading but find that you're nervous and slow to make decisions it might not be for you. If you can't sleep because you are holding a trade over night, then you might be a day trader.

Time Frames

Market data is fractal and charts will display information dependent upon how you set up your chart. It is important to use multiple time frames as well as the appropriate time frames for your type of trading. You wouldn't use a five minute chart if you are a long term investor because what happens in such a small time frame isn't as important as a daily time frame for a long term investor. If you're a short term or day trader then a five minute time frame will be very useful to you.

Time frames are something each trader needs to experiment with. You may like using a five minute chart or a 15 minute chart. Neither is right or wrong the idea is to figure out what you are comfortable and profitable with.

Using multiple time frame analysis is just what it sounds like. You will combine multiple time frames of the same stock to hone in on where to enter and exit a trade. An example for a day trader would be daily, hourly and five minute. A day trader may start by looking at a chart showing the daily time frame. Each candle stick would represent one day's worth of price action. The daily chart is a good place to identify pivot points and long term trend. Then change the time frame to hourly to focus on the strength of the price movement within the pivot point. The hourly time frame will give you a closer look at the pivot point to see just where price reversed. A day trader might also use the hourly time frame to identify the intermediate trend. After identifying just where price actually reversed inside the pivot point, dropping to a five minute chart will allow you to pin point the area in which you will enter a trade should price move back to that spot again.

If you see a stock that is in a long term uptrend and an intermediate uptrend you will likely want to be a buyer. In a sideways trend if price drops into a pivot point you identified on the daily time frame you potentially have a good buy point.

Upon seeing price enter that pivot point you drop into the five minute chart to see if price gets into the area you saw previously in the five minute chart. If it does you may have a buying opportunity. If price drops into the area you already identified then reverses and starts going up, while in the context of a long term and intermediate term uptrend, you have a high probability of being profitable with that trade.

Choosing the right time frames for the kind of trading you are doing is more of an art than a science. That being said here are some general time frames for some common types of trades. These are suggestions you will need to experiment with to find where you are comfortable and profitable. Remember the right way to trade is the way that consistently makes you profitable.

- Day trade: daily, hourly, 15 or five minute
- Day trade: four hour, 30 minute, five minute
- Swing trade: daily, hourly, 15 or five minute
- Long term trade: weekly, daily, four hour or hourly
- Position trading: weekly, daily, four hour or hourly

Shares traded

Shares size matters a lot. There is a big difference between trading 100 shares and 1,000 shares. Share size will determine your risk and your reward. If you are new to trading or not consistent with your trading, I recommend keeping your share size small around 100 shares. The smaller the share size the smaller the risk.

At 100 shares for every penny the stock moves equals $1.00. Easy math right, so let's build on that. If you have a trading account with $10,000 and you have a rule that says you will not risk more that 1% of your account, how much does price have to move to equal a 1% loss? At $1.00 per share, you could risk as much as $1.00 per share on your trade. How about if you buy 1,000 shares, what would be the 1% max risk per share? $.10 per share, I'm sure you get the point.

Revisiting the idea of money management from above, by controlling your share size you control your risk. If 1% is your max risk per trade then the higher the share size the less the stock price can fluctuate. If you have a $10,000 account and buy 1,000 shares, price can only move $.10 against you before you reach your 1% max risk. If you buy 500 shares $.50 would equal 1%. That's much more wiggle room. Play around with the numbers and find what you are comfortable with.

A simple way to think about this would be to start with the trade set up. Then adjust your share size to match your trading rules you have for how much you are willing to risk per trade. I will combine the XYZ example from the "Stops" section above with the hypothetical $10,000 account. XYZ company trades for $10 per share and that just so happens to be the price you want to buy at. Your trade set up is as follows: Entry $10, Stop $9.85 and target one is $10.45. This is a perfect 3:1 reward to risk ratio. If your rule is only risk 1% per trade how many shares can you buy? 665 shares would be

the most shares you can trade. If you are going to risk $.15, the difference between your entry and your stop the next step is figuring out the maximum amount of shares you can trade. 665 shares x $.15 = $99.75, which is 1% of $10,000.

Always start with the trade set up first and adjust your share size, never the other way around. In the example 665 shares is the max you can trade but that doesn't mean you should or must trade 665 shares. That is the number of shares you should not exceed to maintain proper money management. If your risk is $.20 the max share size would be 500, if your risk is $.10 the max share size would be 1,000.

It's important to fit your share size to your trade, not your trade to your share size. You will run into much bigger losses if you try and "force" a trade to fit into an unrealistic set up just because you want your risk numbers to be within your standards.

The skill of trading

I can't think of anything else that anyone can do and has the potential to make an unlimited amount of money. The ceiling to which you are bound by is as high as you want it to be. Trading is something that can make you rich, by chance and by skill. I have personally seen people get lucky and turn a little bit of money into leave your job kind of money. It's possible to get that lucky.

The problem with luck is it can't be sustained. Luck can't be duplicated over and over again to produce predictable results. Everyone wants to get lucky and sometimes you will. Sometimes your target is a 2% gain but it runs away from your entry and you end the trade with a 17% gain. This kind of thing can and does happen and it's great when it does. No one can count on that or expect that to happen.

Instead focus on building skills. Trading is a skill like anything else you learn how to do. Its starts by looking for information in the area you are interested in. You're reading this so obliviously trading interest you. Great what kind of trading? If you don't know, start learning about the different types of trading. Day trading, swing trading, long term, options, futures, the list goes on and on. The tools you have learned are applicable across many types of trading.

Once you decide on the type or types of trading you enjoy and want to pursue it's time to learn how to trade in that way. Learn the steps you should take to effectively trade the way that fits the kind of trader you want to be. This is when you start practicing the skills of trading.

When it comes to learning new skills be careful not to overload yourself with too much information or choices. Get good at one thing, then another, then another. Stack skills like you would stack bricks. Over time you will have built such a

strong skill set money almost becomes irrelevant. If you are able to consistently make 2% per month based on your skill then it doesn't matter if you have $1,000 or $100,000 you can make 2% per month.

That is a world away from getting rich by chance. You will still get lucky from time to time increasing that 2% every so often, but your intent should be to build your skill not your account size. Your account size will grow in your pursuit of the skill. The skill will keep your account growing. This is the goal, to be able to make money because you know how to make money. Apply those skills to any account size and it's only a matter of time before you control your financial future.

IN CLOSING

Trading is much more than just learning how to time the markets. Each topic above is another tool in your trading tool box. Most traders learn these lessons the hard way, or should I say the expensive way.

Money management is usually learned after you have lost your money much faster than you anticipated, which teaches you to be more careful. Stops eventually become part of your trading as a result of huge losses. Creating a trade plan is inevitable for any trader that wants to become consistently profitable. Eventually you start controlling your emotions or they will control your trading. Analyzing time frames and share size are big levers to pull on to help you become profitable while controlling risk. All of us that have been trading for a long time successfully learned to prioritize the skill of trading over the money in our accounts. Learning the skills will take care of the accounts.

Knowing how to measure strength and weakness is critical. You may have great trading tactics, but if you apply them to the wrong stocks at the wrong time they won't work. The idea is to line up as many variables in your favor as possible. This can give you a foundation to start from. As you develop your trading skills you may want to add additional filters to find specific trade set ups.

Trading can be exciting and intimidating at the same time. Even the most advanced and skilled traders are wrong a lot. The trick is good money management so when you're wrong it doesn't take you out of the game. No trader is right all the time, in fact being wrong is part of being a trader. When you're wrong cut your losses quick to avoid big losses. Learn from it and live to trade another day. Sometimes, everything

about the trade is perfect and price still goes against you. This is just how it is sometimes.

This can be discouraging, but don't let it stop you. Anyone can learn to be a successful trader. Don't be fooled into thinking there is a right and wrong way to trade. The right way is anyway that consistently makes you profits. The things you just read are simple and most importantly things you can put to use right now.

Anyone, I mean anyone can learn to trade. It can be as simple or as complicated as you want it to make it. You could learn a few trade set ups and only trade when a stock sets up in a way that fits your set up. Some people like to get very deep into financial data and make complicated algorithms. The only right way to trade is the way that consistently makes you profits.

By reading this you have already done more than most people. It is my sincere hope you take this information and apply it in the real world. Knowledge isn't power when it only lives in your head. The purpose of learning is to put that knowledge to the test and create experience. That experience will develop this knowledge into skills. Actionable intelligence as I like to call it.

MAY YOUR SCREENS BE GREEN.
HAPPY TRADING!

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