The ULTIMATE GUIDE TO DAY TRADING

Learn how to trade Profitably like a pro

TradingSim

#1 MARKET REPLAY PLATFORM

Welcome to the

Ultimate Guide to Getting Started in Day Trading!

This ebook is over 29,000 words and covers critical topics to get you started in day trading.

This same resource would cost you thousands of dollars if you tried to find it on the web thru courses and books. To help navigate this wealth of content, there is a table of contents below that you can use to jump to topics of interests.

Sit back, relax and enjoy the lessons in this book which have taken years to develop.

Much Success,

Al Hill
Co-Founder, Tradingsim

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Day Trading Overview

What is Day Trading?

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

Type of Traders

Breakout Traders

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

Reversal Traders

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

Range Traders

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

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

Day Trading Risks & Rewards

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

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

Commissions

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

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

Pattern Day Trader Status

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

Understanding Specific Time Zones During the Trading Day

Having a successful trading career not only depends on the trading system or style that you use but also depends on other intangibles, such as day trading time zones.

What exactly do we mean by time zones? Well, I can tell you we are not talking about Eastern and Pacific.

You need to start thinking of the market in terms of time blocks.

If you are out here trading all day with the same strategies, you will end up overtrading and burning through hard earned cash.

What a day trader must understand is that even if a chart has a great setup, the time at which the trade is placed can have a large impact on the outcome of the trade. Well, understanding the market dynamics during different times of the day will take your trading to the next level.

Think about your trading history and notice if you see a pattern in the different times of day in relation to winning and losing percentages.

For example, many traders who are day trading breakouts will be more successful during the first hour of the day than any other time frame. Typically, breakout attempts after 10:10 am will fail and reverse which will only serve to frustrate the trader and cause you to doubt your approach to trading.

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

Trading Time Zones

Day Trading Time Zones

THE OPENING BELL - 9:30 AM TO 9:50 AM

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

So, how do you level the playing field to have a better shot at identifying winning trades? You need to include pre-market data.

When you look at a chart without pre-market data you may see a closing price of let's say $10 dollars and then an opening price of $12.

You are completely blind to the trading volume and price patterns. Therefore, it's really tough to make a buy decision when you have not idea the pattern you are trading. The lack of visibility into the pattern is not a major concern when long-term investing.

However, as a day trader, you are literally walking in the dark.

Opening Bell Chart Pattern

To further illustrate the point of patterns developing in the morning, please check out the below chart.

As you can see in the chart, it's tough to say whether you should buy the opening bar. At what price do you enter the trade?

Now, let's introduce pre-market data and a one-minute chart.

Chart Including Pre-Market Data

It doesn't even look like the same chart. There are two things I added to the chart: (1) pre-market data and (2) a one-minute chart.

You can see the stock was making higher highs and higher lows going into the open. Next, your entry is a break of the pre-market high.

So what happened after buying the break of the high?

Spike High

SBOT shot up to over $3.25 after entering the trade at $2.65 on a break of the pre-market high of $2.64. This represents a total gain of22.6%. I understand it's unlikely you nailed the top but you still would likely walk away with 20% on the trade.

Now going back to our chart without pre-market data and a 5-minute chart the trade would have turned out completely differently.

For starters, if you wait until the first 5-minute bar to close before setting your buy trigger, you would have entered the trade at $3.04 and with a spike high of $3.25 you would have missed out on over 15 percent of the move.

Spike on 5-minute Chart

This brings me to my last point on this topic. As I stated in the beginning of this section, trading during the first 15 to 20 minutes of the day requires skill and discipline.

Also, I wish someone would have told me that you need to use a lower time frame of one-minute charts and pre-market data to trade the setups.

If you rely on 5-minute charts alone, you will likely get caught in a trap going into the reversal time zone.

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

The first time frame of the day where things get started is right after the opening range setups. This begins around 9:50 am and lasts for about 20 minutes.

Day traders need to pay close attention to this time frame; many traders will put on continuation trades, or buy stocks which set new 30-minute highs and short stocks setting new 30-minute lows. Other traders may look to buy stocks that have had small retracements after a large morning gap and short stocks that have had minor retracements off strong gaps to the downside.

Continuation Trades

Once the dust has settled from the opening bell, you will be able to more clearly see what the traders in this security will want to do. The volume will drop off a little bit compared with the opening 20 minutes but will still be very high during this time.

This time period is my favorite for trading as the price stability returns to the market but volatility is still present for profitable trading. In strongly trending markets, reversals may be small or non-existent. This can especially be the case when an index gaps higher on the open and continues to break to new highs during this time period.

After your stock breaks out, you will likely see two to three pushes higher before the stock peaks. This peak will often be the high of the day and the stock will then shift into the low volatility of lunch.

Breakout Trade

Reversal Trades

Just as there are continuation setups, there is an equal amount of trades that reverse. Going back to our breakout example above, notice how SBOT begin to roll over and then head lower.

There is a fine line between finding the stocks that are going to break out and the ones that are going to roll over. If you consistently find yourself buying right before the selloff you have one of two options.

You can first look to enter trades earlier by identifying patterns using pre-market data. Or you need to get better at identifying resistance levels and gauging when stocks have a greater likelihood of going higher.

There is no magic pill; it takes hard work building up the ability to identify winning patterns.

Again, you will need to keep a close eye on the moves in this time frame as it can lead to sharp turns lower.

I do not trade short at all. However, if you are shorting stocks this is when you will want to focus on trading opportunities.

Breakout Trade

Volatility Starts to Dry Up - 10:10AM to 10:25AM

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

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

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

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

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

Go Eat your Lunch!! - 11:15AM - 2:15PM

Lunchtime trading can be brutal. False breakouts and choppy sideways moves characterize this time period. If you must trade, trade lightly until you have a good track record of putting on winning trades in this time zone.

Also, please let me know how you do it! The risk to reward is very high here.

The volume will fall out of the market as floor traders and other institutional traders will take their lunches. Don't let this time zone turn profitable morning trading into a loss.

To be honest with you, it's just not worth your time. I have done extensive research into my trades and after the first hour and a half, any trades I put on are just giving money back to the market.

Too Much Time Required

Beyond all the reasons we have discussed thus far, the other issue is the time required from you. Trading all day is just taxing. Remember the market can be unpredictable longer than you can exercise discipline.

If you are sitting there all day, at some point you will start to see trades that do not exist. If someone is pressing you to trade during lunch, please do yourself a favor and run.

Don't believe me? Go back and look at your charts. You will likely see a rally in the morning to a high. Then a pullback into the lunch time zone. At this point the stock will likely go flat to down. Then a late day rally may or may not appear. You will spend three hours of your day for a 50/50 win rate at best due to the lack of interest and market volume.

Check out these midday charts to get a feel for the lack of trading activity and price movement - it's not worth the headache.

Flat Midday Trading

Flat Midday Trading - 2

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

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

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

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

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

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

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

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

Conclusion

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

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

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

Day Trading Breakouts Overview

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

Pros of Breakout Trading

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

Cons of Breakout Trading

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

Scalp Trading Overview

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

Pros of Scalp Trading

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

Cons of Scalp Trading

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

Counter Trading Overview

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

Pros of Counter Trading

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

Cons of Counter Trading

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

Trend Following Overview

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

Pros of Trend Trading

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

Cons of Trend Trading

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

Summary

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

Level II Quotes | Primary Tool for Active Traders

Level II provides the data for pending orders in the market. It displays the size of the best bids and offers with their respective depths. Day traders use level II to gauge the direction of the market over the short-term.

This article will discuss the working parts of the level II screen based on the tools provided by TradeStation. While level II windows will look different depending on the broker, the functionality is virtually the same.

Level II Window Structure

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

Security Information

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

Symbol	Bid Tick	Last	Net Chg
AAPL		126.04	1.41

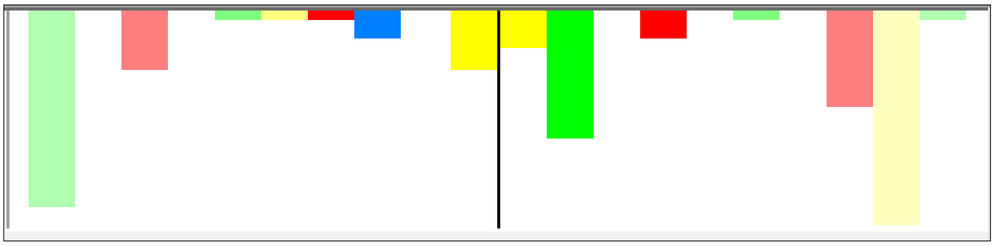
Bid-Ask Window

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

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

Depth Chart

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



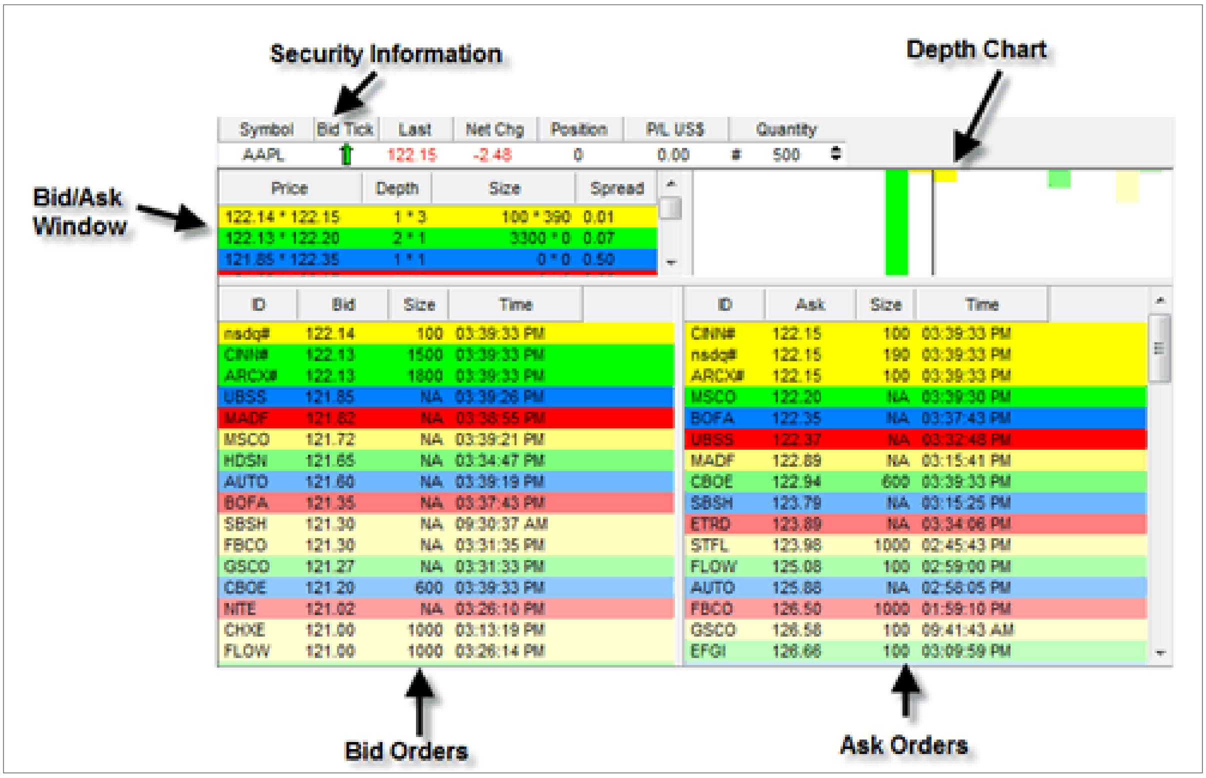
Bid-Ask Orders

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

ID	Bid	Size	Time
ARCX#	121.88	100	03:35:22 PM
nsdq#	121.87	90	03:35:22 PM
CINN#	121.86	700	03:35:22 PM
UBSS	121.75	NA	03:34:29 PM
CBOE	121.73	300	03:35:21 PM
MSCO	121.71	NA	03:35:10 PM
HDSN	121.65	NA	03:34:47 PM
AUTO	121.37	NA	03:32:29 PM
BOFA	121.35	NA	03:26:07 PM
SBSH	121.30	NA	09:30:37 AM
FBCO	121.30	NA	03:31:35 PM
GSCO	121.27	NA	03:31:33 PM
NITE	121.02	NA	03:26:10 PM
CHXE	121.00	1000	03:13:19 PM
FLOW	121.00	1000	03:26:14 PM
MADF	121.00	NA	03:35:20 PM

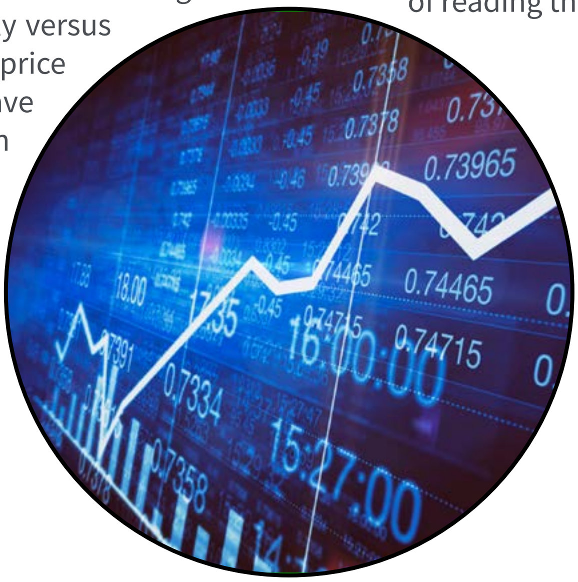
ID	Ask	Size	Time
nsdq#(2)	121.89	200	03:35:22 PM
ARCX#	121.89	200	03:35:22 PM
CINN#	121.90	1400	03:35:22 PM
CBOE	122.05	300	03:35:21 PM
MSCO	122.16	NA	03:35:13 PM
UBSS	122.20	NA	03:29:59 PM
BOFA	122.35	NA	03:26:07 PM
MADF	122.89	NA	03:15:41 PM
SBSH	123.79	NA	03:15:25 PM
ETRD	123.89	NA	03:34:06 PM
STFL	123.98	1000	02:45:43 PM
FLOW	125.08	100	02:59:00 PM
AUTO	125.88	NA	02:58:05 PM
FBCO	126.50	1000	01:59:10 PM
GSCO	126.58	100	09:41:43 AM
EFGI	126.66	100	03:09:59 PM

Example of Level II Window



Tape Reading

Reading the tape is one of the essential indicators when active trading. Many traders know about the hundreds of indicators readily available on most trading platforms, but very few have an idea of how to read and interpret the tape. Interpret is the best way of describing how you need to approach your relationship with the time and sales window. Unlike other indicators which have oversold or overbought levels, reading the tape is specific to each situation. This goes beyond how a stock trades, but how a stock is trading on a given day and at a given price level (e.g., 10, 25, 100). In this article, we will cover the basics of the time and sales window and tape reading (speed of the tape, size of orders, etc.). The tape is most important when validating breakouts and supply versus demand at critical price points. Once you have given this a thorough read, I highly advise you review the following related articles:



(1) Psychological Support and Resistance Levels,

(2) Day Trading Time Zones, and

(3) Day Trading Breakouts. In each of the aforementioned articles, you will see how the tape provides validation to the price action, which will prevent the dreaded scenario we've all faced of being caught in the "trap." Lastly, regarding tape reading, it truly requires the "gift of touch." For those unfamiliar with this term, it means you do or use something so much; you begin to gain a sixth sense of when things are about to happen. Once you are ready to start practicing using the tape, you are going to need to log some quality hours with our trading simulator to hone the skill of reading the tape.

What is the Time and Sales Window?

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

Last	Bid/Ask		Size
1115.46	1115.05 / 1115.86		2 / 1
Time	Price	Size	Cond
11:46:01	1115.46+	100	Btwn
11:45:55	1115.46	264	@Ask
11:45:55	1115.46+	200	@Ask
11:45:42	1115.23+	100	Btwn
11:45:32	1115.22	100	Btwn
11:45:32	1115.22-	100	Btwn
11:45:32	1115.25-	100	Btwn
11:45:32	1115.27+	100	Btwn
11:45:31	1115.13+	100	Btwn
11:45:31	1115.03-	100	Btwn

Last	Bid/Ask		Size
11:45:31	1115.17	100	@Ask
11:45:31	1115.17	100	@Ask
11:45:31	1115.17+	400	@Ask
11:45:18	1115.03+	100	Btwn
11:44:57	1114.86-	100	Btwn
11:44:57	1114.89+	100	Btwn
11:44:57	1114.85	100	Btwn
11:44:57	1114.85+	100	Btwn
11:44:57	1114.68	100	Btwn
11:44:57	1114.68-	200	Btwn
11:44:57	1114.92+	100	@Ask
11:44:57	1114.80+	100	Btwn

Time and Sales Window

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

How to Use the Time and Sales Window

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

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

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

Size of Orders

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

Order Speed

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

Order Condition

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

Speaking from Experience...

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

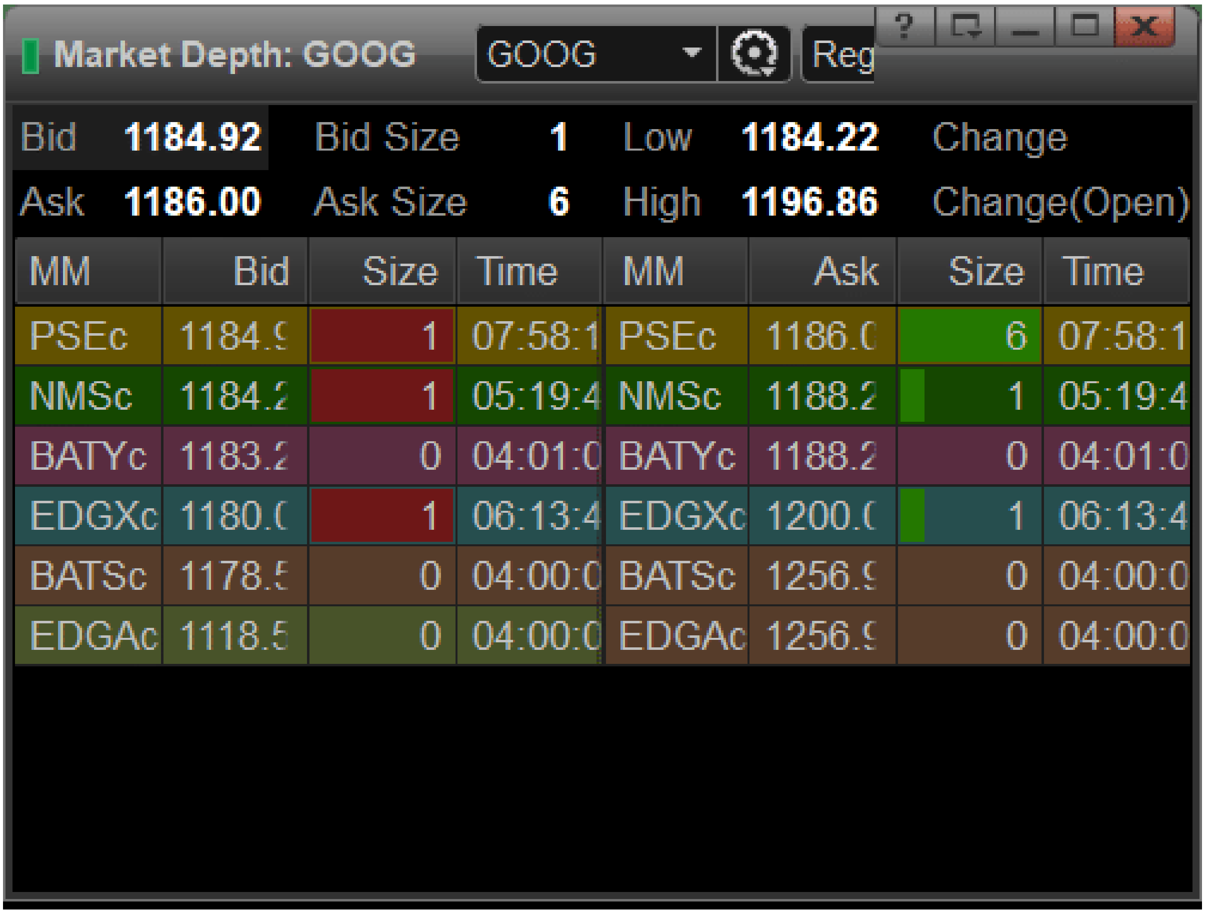
Which stocks are best to trade?

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

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

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

Tape Reading with Level 2



Level 2

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

Exiting a Trade

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

Bid/Ask Spread at Key Levels

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

Extremely High Volume Stocks

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

Make Price Prove the Point

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

Don't Let Your Ego Get in Your Way

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

Focus

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

Conclusion

Tape reading is a very important skill to have as a short-term trader and can keep you out of many bad trades. Remember, don't be an action junkie, psyching yourself up for every trade.

If you do this, you will find a reason to put on bad trades in the heat of the moment. Discipline is key, and it takes time to develop. For any new traders looking to try this out, please practice, practice, practice before you put your hard earned money at work. Mastering the art of tape reading will take time, but when you do, you will be rewarded.

Trading with margin is the basic idea that you are trading with more cash than you have on hand. The key with margin is learning to manage your risk exposure at any given time. The use of margin is not something advised for a new trader or a trader that is unable to produce consistent gains in the market. In this article, I will cover my strategy for how to day trade with margin.

Why Margin is better suited for Day Trading

Trading with margin is an activity that you must have a close eye on. You want to watch these positions closer than your 2 year-old son walking through a crowded mall. When day trading you have up to four times your available cash at your disposal. This allows a person with a much smaller account to trade like one of the big boys. I know what you are thinking, day trading with margin is better because I can just use more money? Wrong! Day trading with margin is better because the sheer act of day trading requires you to pay close attention to your trading activity. Unlike swing traders who may be hit with overnight news or the macroeconomic event of the day, you the day trader are lock step with your position every tick of the way. You are forced to actively manage your margin because you are actively managing your position. This reduces the likelihood of significant price fluctuations that could wreak havoc on your trading account.

Ability to Scale up or Down on a dime

When you are winning in the market you honestly begin to feel like Michael Jordan during any one of his six championship runs with the Bulls. It feels like no matter what kind of trade you put on; you will come out on top. Well any successful trader well tell you in this business when you are winning it is the time to press the gas and when you are not doing so well, you need to tighten the belt. The ability to increase and or reduce your risk profile on a dime is often the difference between an average and above average trader.

For example, let's say you were short 200% on a stock and planned to hold your position for one year. However, around month nine you realize you are now down 50% on your account from over-leveraging yourself. Do you simply cover your position?

You could, but what do you do at that point. Do you now use more margin to make back what you have loss? Or do you use less money because you haven't proven to yourself you know what you are doing? If you reduce the amount of margin you can use, this could triple the time required to get back to breakeven.

Do you see how painful this thought process can be? Day trading allows you to work through these cycles of using more or less margin on a weekly and even at times daily basis. Let's replay that same sort of scenario but let's use a day trader in this example. Bob has loss money for five trading days in a row.

He feels like he can't find his way and is down 10% on his account value. Bob decides to reduce his trading size down to his available cash until he can recoup his losses. This takes Bob 3 weeks and before he can blink he is right back to trading with ease.

How do things get out of hand?

So, at this point, you are probably asking yourself, well if using margin with day trading is so great why do people struggle so much. I have already stated that day trading allows you to (1) have a laser focus on your trading and (2) quickly adjust your use of margin based on your trading activity. So why do so many lose? Simply put, just as much control day trading allows you to have over your activity; it can also lead to over trading.

As long as you meet the day trading requirement of at least 25,000 dollars in your account balance, you can place as many trades as you like in a given day. This ability to place so many trades if left unchecked can prove disastrous for someone going through a rough patch. Combine the ability to place unlimited trades with up to four times margin, well I think you get the point.

My Strategy for Day Trading with Margin

Now that we are done with the narrative, let's dive into the hard fast rules which work for me:

1. Only use margin once you have been able to turn a string of monthly profits for three straight months day trading.

2. Only use 10% of available margin on any one trade. So, if you have 250,000 cash or 1 million on margin, only use $100,000 per trade.

3. Only hold three trades at-a-time. This way in the above example your maximum exposure would be 300,000 dollars or 20% above your available cash.

4. Never lose more than 2% of your available cash on a trade. That would translate to a maximum loss of 2.5% on any trade.

   Never hold a position overnight. If you are day trading, then do just that – trade during the day.

5. If you have a losing week, reduce the amount of margin by 25%. Continue this reduction in a linear fashion until you turn a profit for the week. Use this same approach to stair step back to the maximum use of margin. For example, if you have a losing week, reduce your margin use from $100,000 down to $750,000. If you have another losing week, then drop this value down another $500,000. Once you get down to your cash balance of $250,000 drop it by 25% of this value week over week. I guarantee you as you reduce the amount of money available for you to trade, your level of focus on making money

6. will increase, and you will turn a profit. There is no greater motivator than that of sheer survival.

Crawl Before you run

The accessibility to margin provides the illusion of endless wealth right within your grasp. If left unchecked you will begin to feel a sense of attachment to the money as if it's your own. In reality, the margin is the equivalent of placing a deadly weapon in an untrained hand. You must treat it with such care that the fear of what it can do to you both professionally and personally should always keep the relationship in a constant state of flux.

How to Day Trade Guide for Successful Trading

Before we go any further in this article, let's lay down some ground rules. The purpose of this article is to provide you with the foundation for how to build a successful day trading career. To be honest with you, it's kind of silly for someone to even propose that they can explain to you in one article how to day trade. I would compare it to logging onto your favorite search engine and typing in "How to Pilot Airplanes." If you don't get the analogy, then you have landed in the right place.

So, where do we begin? If I had to define a blue print for how to day trade I would group it into seven core components.

1. Money Management
2. Mastering One's Emotions
3. Strict Adherence to the Rules of the Game
4. Taking Profits
5. Simple
6. Technical Analysis
7. Trading in the Morning
8. Practice Makes Perfect

You may read the above list and think there are a few things missing or I have listed too much. That's A-ok, remember this is my list of what builds a successful day trading career.

Money Management

Do you have enough money to pay your bills and trade? How much are you willing to lose on each trade? How much money do you use on each trade? These are the basic types of questions you will need to ask yourself throughout the trading day. Remember, this is day trading, so you will not have a lot of time to work through every scenario. Whatever your money management rules are you will need to stick to them. Finding a position and sticking to it will be a common theme throughout this article.

Below are my rules for money management, pick and choose what works for you:

1. Only use 10% of your margin. For example, if you have 100k cash which would afford you 400k in margin only use 40k on any one position.
2. Never have more than 30% of your margin in float at any given time. If you figured out that this translates to holding a maximum of three trades at
3. once, you are pretty sharp!
4. Never lose more than 2% of your trading capital in one trade. This would mean if you have 100k in cash the maximum you can lose is 2 thousand dollars.
5. This would translate to a loss of 5$. Just in case you are wondering you should never lose 5% on a day trade.
6. You need 50 times more cash than your monthly expenses. If this sounds excessive to you, well it is. The goal here is for you to have a successful day
7. trading career and not an expensive vacation from your day job. If this explanation was not enough for you, feel free to read through
8. [How Much Money do I need to Start Day Trading?]
9. You need to pay yourself. If you are a fan of [shark tank] like me, one of the first
10. things Mr. Wonderful will ask you is how much have you paid yourself. So, every quarter you need to pay yourself 20% of your profits. If this isn't
11. enough to pay your bills, well you don't have enough money to become a day trader.
12. If you go on a one-week losing streak, reduce the amount of money you allow yourself to trade by 25%. If you have another losing week, drop down to
13. 50%. If you have a third losing week drop down to only using 25%. I guarantee you if you go from using 40k per trade down to 10 thousand per trade,
14. discipline will have a funny way of finding you.
15. If you go on a winning streak, don't allow yourself to use more margin. Unlike losing streaks where you reduce the amount of in float per trade, you
16. never increase your percentage use of available margin when things are going well. Greed is a cancer, and it should be your mission to live a long life.

Mastering One’s Emotions

I love martial arts movies and not just for the fight scenes. Have you ever noticed how the Senseis are in a constant state of control?

No matter how unruly the student or the problem at hand, the Master never loses his cool. As a trader, you need to get to this Zen state. The emotionally charged trader you may see on T.V. yelling at his screen may be great for ratings, but this lack of control will ultimately lead to financial ruin. Below are ground rules on mastering your emotions:

1. You must have balance in your life. A trader looking at screens all day doesn’t make for someone other people want to hang around. Spend time with
2. those you love; it will recharge your soul.
3. Like the greatest athletes of the world who can shrug off a bad game and turn around the next night and light it up, you to must have a short memory.
4. Beating yourself up will accomplish two things: (1) stress and (2) financial ruin.
5. Staying focus for the long haul. For those of you that have run a marathon do you remember what mile 26 feels like? How you have to keep a clear mind
6. and completely focus on your goal of completing the race. Well, day trading requires this same level of focus.

If you feel you need more time in the “chair,” please read through our day trading psychology section.

Strict Adherence to the Rules of the Game

Like most Americans, I spend a good portion of my Sundays watching football. I'll be the first to admit football is a violent sport; however, over the years the league has worked to protect its players through some rule changes. Imagine what it would feel like to watch football without the referees.

There would likely be complete chaos on the field. If you do not have rules for how you are trading and adhere to those rules 100% of the time, you are in essence watching a tackle football game without the referees. Below is the one thing you need to know from this core component:

1. Your rules must reflect your goals and risk profile as a trader. What works for Joe Trader may prove disastrous for you
2. Always follow your rules to the letter
3. Never break rule 1 or 2.

Taking Profits

When Apple makes a new iPhone to sell it is priced accordingly. You as a consumer can understand this pricing structure and determine if you can afford to join the Apple faithful. For some reason, traders get caught in the trap of "letting the trade play out." I have yet to meet a trader who has made money always letting the trade "play out."

The people that make money in the market are those who have a clear target and take their profits as the trade is going in the favor. You never want to be the person who had the winning trade only to see things go wrong. So, to make sure you do not end up on that long list of victims try the following:

1. Have a set price target for when you will exit a trade. Remember, day trading is more than getting every single penny out of the trade. There is something called "time" which is an important factor. If you can win two trades in the time, it takes for you to wait for your grand slam then who cares. You may not have the glorious trade to talk with your friends about over dinner, but you will not go broke taking profits

Simple Technical Analysis

As long as people could plot price action on a piece of paper there has been a chart prophet running around. In the old days there was the trader with his weekly charts, and today it's the automated trading system gurus.

Let me save you all kinds of time and money and stress to you the importance of keeping things simple. A million indicators on your chart only does one thing, give you a false sense of security going into battle before you kindly give your money over to the more seasoned traders. So, when you get the urge to add just one more indicator, please read the following:

1. You need to see the price action in the form of candlesticks
2. You will need volume on your chart
3. You will need a simple moving average to monitor the trend
4. You can have a maximum of two additional indicators

I can already hear the naysayers complaining that there are a million more ways to make money in technical analysis. Guess what, they are right! That's the entire point of limiting the amount of technical information you assess on the chart. It is better to be a master of a few things versus knowing a little about everything and bouncing around from one gimmick to the next.

Trading in the Morning

All of you day traders who say money can be made all day, please go sit down. It takes years upon years of trading to be able to march out there and trade from 9:3o to 4 and make money. Your goal as a new trader is to be the master of few things if you haven't picked that up in the article thus far. Day trading is a business of volatility.

You need someone on the other side of the transaction as a willing participant to execute the order at your requested price. So, for me, it's always made sense to focus your attention in the morning.

Where else can you find some plays, with high liquidity in the same place? If you don't believe me bore yourself to death trading from 11 am – 2 pm; don't forget traders are human who need to take breaks and eat lunch just like the rest of us. Below are a few ground rules for trading in the morning:

1. Wait until 9:50 to open your first trade. The first 20 minutes of trading is so random you will lose your marbles trying to piece it all together.
2. Do not enter any new trades after 10:20. By keeping you locked to a 30-minute window for opening new positions, it forces you to have laser focus and
3. reduces your risk of over trading.
4. Only trade volatile stocks. If you are in the business of making money, then your stock needs to have enough in her to move the required distance for the trade to be worth your time.

Practice Makes Perfect

If you want to be successful at anything in life it requires what? Exactly, it requires you to practice. If you haven't read the book Outliers, I strongly recommend you do so. One of the key points from the book is the belief that it takes 10,000 hours to become a true master of any craft.

So, I dare to say why trading would be any different? Why do so many people fall victim to depositing money into a trading account only to start their venture prematurely? There are many people in the world that could have avoided financial ruin if they just paused, took a breath and slowly eased into their trading careers. If you are thinking about trading, ask yourself the following:

1. Have I practiced my new trading strategy in a true market environment?
2. While the back testing graph shows I would have made money,
was I able to reproduce the same results?
3. Do I spend more time watching T.V. or
some other frivolous hobby more than I practice trading?
4. Do I have access to a trading simulator that I can use outside of market hours?
5. Have you practiced day trading for at least 5oo hours?

If you have answered no to any of the above questions, you need to rethink if day trading is the right business for you. Day trading has a weird way of weeding out those who are not built for this type of lifestyle. If you are looking for a way to make some additional income, there are some other ways to make a little money on the side. However, if you are thinking of day trading, this is more of a calling and less about the money.

There will be some down days where you will question yourself and what it is you're doing with your life, and unless you are truly committed to the journey, you will likely fail. So, now that you have read this monster of a post let's turn the title of the article on itself. Do you feel that you know how to day trade and are you up for the challenge?

How Much Money do I need to start Day Trading for a Living?

So, you're looking to take on day trading as your profession. Please make sure you read that first sentence again, " you're looking to take on day trading as your profession." This will require a significant financial investment on your part. If you have bills (rent, mortgage, car note, etc.), do you have another source of income outside of trading? Next question, if you take your current expenses and multiply them by 50 do you have that much in seed money?

If the answer to both of these questions is no, let me save you a lot of time and headache and tell you upfront that you are not ready. This isn't a matter of will or self-belief but as Bill Clinton said in the 2012 Democratic National Convention, "It's Arithmetic." The gift and the curse of day trading are it only requires a dollar and a dream. Many businesses have significant financial barriers to entry.

For example, as of the writing of this article, McDonald's requires

a minimum payment of 750k of non-borrowed money. In America, if you want to buy real estate, banks will require you to have 20% down in cash before they give you a chance. So, how much do you have to invest in your trading business?

Minimum Cash Requirements under US Law to Day Trade

Now that my conscious is clear let's dive into the numbers a bit more. If you are looking to day trade equities in the US, you need a minimum of 25,000 cash. This dollar figure just allows you to get into the game based on the laws as stated by the Securities Exchange Commission. Now let's run through some scenarios of trading profiles. These are purely fictional, but much like when you hear the sermon at your respective place of worship, one of these messages will be your story.

Fearless 20 something day trader

So, Pete is 26 years old. He makes good money as a mortgage broker, is not married, has very little debt and things have gone pretty smoothly for him in his life. He lives in Austin, Texas, so his expenses aren't that much. He's been able to save 50k dollars at his job and is ready to take the leap of faith to start trading.

Pete has 2,500 dollars a month in bills, and this covers all of his living expenses. Since short-term trading is taxed based on your income bracket, let's say Pete is at the 25% tax bracket for federal and another 4.5% for state based on his trading income.

So, to just break even after taxes, Pete needs to make ~3,600 a month or 7.2% monthly return. Now I know there are you reading this that will say, it's not 7% because it's you can day trade with four times on cash for equities.

But remember to be careful with this sort of thinking, because there is just as much risk of losing money as the potential for profits when leveraging your cash. What do you think Pete's odds are of both growing his account and consistently paying his expenses? Let me dare to say Pete will be under a lot of stress.

55-year-old retiree day trader

Outside of the know-it-all youngsters, there are the early retirees that have succeeded in the business world that now want to tackle the markets in retirement. In this example we have Susan. Susan is a 55-year-old, wife and mother of 2. She is a retired marketing executive that was a consistently big earner over her career. Susan's husband is still working as a partner at a law firm earning a healthy salary, which of course helps with expenses and healthcare coverage.

Susan's twin boys are starting their sophomore year at a private institution which sets them back a cool 60k per year. So, Susan needs to come up with ~3k a month to help carry the load to avoid her family from digging into their savings. Remember when I said Susan was a big earner, well she has over 7M in retirement of which she is willing to commit 1M to her trading venture. So, let's quickly recap the numbers again, Susan has 1M to trade of which she needs to make 3k to cover her expenses. This represents a .3% return per month. What do you think the odds are for Susan to both grow her day trading account and consistently cover her expenses?

37 Year Old Zen Trader

Mark is a 37-year old trader with a wife and three kids. His average monthly expenses are 3k. Mark was smart with his money and has been able to accumulate enough rental properties that he has a positive cash flow of 5k per month. Mark's trading account is 75k, and he has a healthy retirement fund. What do you think the odds are for Mark to both grow his day trading account and consistently cover her expenses?

You will notice in the above examples; we left out some basic items like how much they need for retirement and what are their long-term financial goals. I did this purposefully to simplify the discussion down to the most basic of levels – can they make it as a trader. It doesn't matter how much you start with, but rather your ability to control expenses and how successfully you can tip things in your favor by keeping your debt to trading capital ratio in check.

The odds are not in your favor

Did you just read those three fictional stories and they haven't swayed you one bit regarding the amount of capital required to start a successful trading career?

You still think you can start with 10k while having 3k a month in expenses and still come out ahead in 12-months? Well, let me offer you a very sobering statistic – over 80% of day traders lose money. While there aren't dozens of exhaustive studies, I did find one on the web which had a great sample set of data and some hard facts. The paper is titled "

Do Individual Day Traders Make Money?

Without giving away all of the goodies from the study, the overwhelming findings is that after you factor in commissions, the majority of active traders just break-even.

In Summary

Once you factor in living expenses and life's curve balls, it's no wonder that most traders end up failing at their dream. It's funny in a way because most people think of trading as a risky profession, as if we are all going out trying to feed our families by playing the lottery In actuality, day trading can be a serious business and would probably have a better brand if its participants had a better understanding of the financial requirements to play the game.

If this article wasn't enough in terms of providing you with insight into your psyche, please visit our section on day trading psychology section of the site. Here you will find more articles that cover risk profiles and the emotions of trading.

How Many Monitors Do I Need for Day Trading

Let me first start by saying that at my peak I had four monitors when I was day trading. I did not have one of those custom setups where a company builds you some supercharged desktop machine with a chassis of monitors stacked on top of each other.

I had three monitors directly in front of me on a desk with a fourth monitor ever so slightly elevated off the floor on top of the desktop. The three monitors were each 20 inches with the fourth monitor right around 14. I think the number of monitors gave me a greater feeling of control or maybe I was doing something significant because my setup resembled the cockpit of an F-14 fighter plane. I am going to help you save some money by showing you that all you need is one monitor to successfully day trade for a living.

You Only need One Monitor

We have all probably seen the images of traders with 20+ screens staring them in the face.

I'm not exactly sure what this does for the trader. You would almost need a staff of people to track all of the happenings on each screen. It's one step down from Christian Bale in Batman where he was tracking every cell phone in Gotham city with Morgan Freeman at the helm.

With the advent of technology, trading platforms have moved towards a widget based model. The concept of widgets allows you to show and control multiple components of a trading application on one screen. This development has completely eliminated the need for more than one monitor. Over time I began to realize that by focusing on one screen it allowed me t0 reduce market noise.

To make a move to one screen, you have to do more with less. For me, it was a matter of breaking the monitor up into three sections. The left side of the monitor provides your road map. The center is for your primary trading time frame, and the right is for the next time frame up. To see an example of this, please look at the image below.

Left Side of the Main Screen Monitor

The left side of the monitor I have my road map for trading. A road map consists of the tools which allow me to look at the broad market at a glance and then drill down into specific buy and sell signals in a matter of seconds.

Market Movers

Gainers and Losers

This is where I track the largest percentage gainers and losers for the day. These are the stocks that have increased volatility likely due to some sort of news event. I keep the market movers in the upper left-hand corner of the screen, so I always have my eyes on the prize. Regarding tracking, you will want to keep the top twenty decliners and top twenty gainers in your list.

Depending on your system (mine has very strict rules for opening a position) tracking forty stocks will often present you with three to six trading opportunities of the day. Forty symbols sound like a large number, but this assumes you start reviewing your charts before the market opens. If you sit down at your desk at 9:30 am and expect to be successful, you are kidding yourself. Trading requires proper planning like any other business. So, you should start cycling through the plays no later than 8:30 am.

When using the market movers, you will want to sort the stocks by percentage gain in descending order. In terms of biggest decliners, you will want to do the reverse and show these in ascending order for percentage gainers. Your trading software should be able to alter the ranking of these symbols based on their latest quote. Your trading software should also allow you to click the symbol from the market movers section which in turn updates the chart in the middle of your screen. The linking of market movers to your main chart area by simply clicking the symbol will save you loads of time when analyzing the market.

High Volume Stocks

Volume is a big part of analyzing the trades available in the stock market. Think about it, what's the point of showing the top gainers and losers in the market if they only trade 2,000 shares per day? For me I like to see on average 40,000 to 50,000 shares trade hands every 5 minutes, so you will want to make sure your market movers have either already pre-screened high volume stocks, or it provides you the ability to filter your results.

Watch List

As you scan the pre-market, you will want to identify potential trade setups for the morning. This includes stocks from your market movers as well as stocks you may follow on a daily basis. In the watch list, you will want to keep a maximum of 10 stocks. The end game here is that the market movers is your starting point for quickly assessing the market, but the watch list is where you are reducing the amount of noise and placing your focus on your top picks.

Much like market movers above, your watch list will need to be linked to the main chart area. This way you can quickly click the symbol and have it populate the chart on your screen.

Level 2

Once you have identified the top stocks that fit your system, you will now want to start peeling back the details of the setup. A great chart or setup may not reveal the other underlining supply and demand of a security. This is where your level 2 analysis will need to come into play. The level 2 will show you the open bid and ask orders. This is not a science like looking at an overbought or oversold indicator; it's more about the art of seeing how the security is trading.

Time and Sales

I am a traditional day trader, so I do not go far without my time and sales window. My time and sales allow me to see the size and speed of orders as they cross the tape. This is critical as you are watching stocks cross key levels of support or resistance. Like level 2 this is more art than science. As the speed of the time and sales and the size of the orders picks up, you will know that your stock is likely to continue in your desired direction.

Center of the Monitor

The center of the monitor should contain your primary time frame you trade. For me, it is the 5-minute chart. Here you will want the window to update with stocks as you cycle through the market movers and your watch list. This main section should take up two-thirds of the monitor. Again we are giving more real estate to the middle section because this is where you should be focusing your attention.

Another key component of the center section of your monitor is your account value. Some traders believe in not associating money with trading; however, I believe it's all about the money. So, make sure you keep some widget or information around your account value and profit per trade front and center.

You have to learn to disassociate your emotional attachment with your money and realize you need to actively manage your account. Now, I'm not suggesting you should have a huge banner which shows your account value; just make sure you don't fall in the habit of pulling the covers over your eyes to your trading activity.

Right Side of the Monitor

The right side of the monitor should have the next time frame up you are trading. If you have not read the article on trading multiple time frames, please click this link. Since I'm using a 5-minute chart the next time frame up that is most popular for traders is the 15-minute chart.

Just to be clear, the entire right side of the monitor is dedicated to the 15-minute chart. I will have the same set of indicators, just a larger time frame and longer look back period. If both my 15-minute chart and the 5-minute chart are in alignment, I have a greater chance of success. Regarding real estate, you should allot one-third of the monitor space to display the chart.

Tools You Can Use to Reduce the Number of Monitors

Alarms

If you are used to trading with multiple screens you probably keep 15 – 30 charts up and you are monitoring them all. You watch each tick as the stock bounces up or down. If you have tried to monitor this many charts, it's somewhat doable as long as the market is flat.

However, if you are looking at the first hour of trading and there is a sudden sharp move in the market you will now need to actively look at all of the charts simultaneously which is virtually impossible. You can reduce the need to have so many charts on your screen by adding alarms to trigger an alert when price crosses a particular threshold.

Linking

We mentioned earlier in the article the concept of having your watch list and market movers linked to the chart. This will allow you to quickly click through dozens of charts in minutes versus typing in each symbol into your chart.

Widgets

Find a trading platform that has completely widgetized their application. This will allow you to display many tools on one chart cleanly and effectively. We offer collapsible widgets as a part of Tradingsim.

Things that clog up your Monitor

News

If you are trading the market, you may feel the need to have a news feed on your symbols you are monitoring. If you are using it as a trading indicator or aid during the day, you are simply falling behind the curve. Think about it; you are going to stop what you are doing, read the news and then have enough time to digest what you've read, maybe do more research and lastly put on a winning trade based on your findings. How realistic does that sound?

CNBC

While I like to watch CNBC at the end of the day, I do not keep it on while trading. For starters, it is a distraction. While working a corporate job, does your boss allow you to leave on the television in your office? If you are an interior designer, I bet you would love for your boss to leave on HGTV all day.

Let me try hitting this from a different angle, what exactly do you get out of watching CNBC during the day? Have you ever watched something on CNBC while day trading and it made you money? Since you are operating in a world of ticks, by the time the news makes it to CNBC's desk, you and I both know the trade opportunity has already come and gone.

Chat Rooms

Trading is probably one of the loneliest business ventures you can undertake. Unless you trade in a prop firm or lease office space with other traders, you could go hours without speaking to another human being. This level of isolation may lead you down the path of sitting in chat rooms or on StockTwits during the trading day. While I have nothing personally against social trading sites, the flood of information that may come from a community of traders could prove detrimental to your trading activity.

I know a trader that has one screen solely dedicated to StockTwits. As he scans through his list of stocks, he will also update StockTwits to see what the community is thinking. Do yourself a favor and learn to run your race; trading is a business best suited for those who aren't afraid to walk alone.

A Ton of Indicators

If you think about it, the trader with a large number of monitors is also likely to have a large number of indicators. The funny thing about stock charts is as you add more indicators; the key items of price and volume are less visible on your screen. This means that you have to keep resizing the chart, so it's still viewable. In realty, two off-chart indicators are more than enough to size up a trade, but for the unsure trader, he may have six indicators going.

Well, if that's the case, do you think this trader will be able to see anything on one chart if they open 4 or more charting windows? Of course not. So, this trader will load up on monitors so they can still have a clear view of their chart. If you don't believe what I'm saying have a look at the picture of the guy at the beginning of this article. Notice how big each chart appears on the monitor. Next time you look at your chart, ask yourself do I need this many indicators?

What type of Monitor should you buy?

You have some options to choose from when selecting your monitor. Not only do you have the choice of the brand you also have to settle on a type of monitor. Monitors come in the form of CRTs, LCDs, Plasmas, and OELDs. The key thing is making sure you can get great resolution on the monitor (covered later in this article). So, to that point under no circumstances should you be day trading with a CRT monitor. Not only is it bad for you eyes regarding the refresh rates, but it also speaks to the lack of money you have on hand since you have such an old piece of equipment.

Regarding brand, there are a few that jump out at me: Dell and Samsung. I have used both over the years and have not experienced any issues.

Size of Your Monitor

To have the 3 column setup I've mentioned in this article, there is a minimum size required for your screen. If you think you are going to day trade on an iPad mini, this may sound cool, but it's highly unlikely.

I'm not saying there won't come a time where you can trade on these mobile devices, but I think it's highly unlikely to see people successfully day trading from their iPhone while sitting in their neighborhood Starbucks.

So, how big is big enough. For me, 24 – 28-inch monitor is just right. Once you go smaller than 24 and the charts, start to look like spaghetti after you factor in level 2. If you go over 28, you start to creep up on the larger led models and are one level from picking up a plasma. Not to say these larger screens can't be effective, you just run the risk of adding.

Resolution

Resolution plays a big part in the quality of your trading experience. Unlike your TV where 1080p is a must for you to even think about looking at one of the DreamWorks movies, the resolution plays a much larger part for your day trading experience. That's because when day trading we are talking about your actual healthy – your eyes. I have written in other articles about the massive headaches I would get from looking at the chart.

At times I wouldn't be able to shake the throbbing until the next morning. A large part of that was probably the stress of having to deliver winning trades to survive, but another

part of that was the quality of the screen. I would say at a minimum you need a monitor that can deliver 1920 x 1080.

Summary

In summary, the number of trading monitors you use needs to be functional. What I mean by this is you don't need dozens of charts all printing at the same time, news feeds and CNBC blasting in the background. What you need is a clean setup that is all integrated. Remember you first start with your pre-market scans that then feeds into your market movers and watch list.

At this point, you know what you plan on trading for the day. You now need this data to drive what stocks you monitor and remember to use automated alerts to minimize the amount of

manual work on your part. Think what this could do for you by reducing the amount of clutter in your trading approach by going to one screen.

You now may be able to break away from the confines of your home office and venture out to your deck on a nice day. Maybe you could live on the wild side and take a vacation and trade in the morning before everyone wakes up.

If after reading all of this you are still stuck on purchasing more than one monitor below are some good resources I was able to find on the web. I am not affiliated with any of these companies, so no hidden agenda.

http://www.digitaltigers.com/multi-screen-monitors.asp
http://www.samsung.com/us/business/professional-monitors/

You will notice that the Samsung monitors are the cheapest out of the links above, but they will require you to put forth the effort of setting up and configuring your hardware. Just had to throw one more reason in there of why you really should hold off on buying more than one monitor.

As always I hope you found this article useful and good luck trading.

References →

http://www.tradingheroes.com/trade-forex-in-the-bathroom/

image reference of a man standing in front of monitors.

Day Trading Journal

A trading plan is one of the essential components of the trading game. Your trading plan tells you what to focus on: entry criteria, exit criteria, money management, etc. Unfortunately, many traders ignore this important element of the business of trading.

Please remember that trading is a business, and your goal in this game is to make money. Your trading plan is nothing more than a guide for how to navigate through the uncertainty and randomness of the stock market.

If you do not have a trading plan, you should not be trading. This article will cover the five key elements of a basic trading plan, that you can use to develop your own more customized plan.

1 DENTIFY STOCKS TO TRADE

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

2 SET PROFIT TARGETS

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

3 SET STOP LOSS AMOUNTS

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

Remember → The game is won by keeping your winners larger than your losers.

4 Set Goals

In every business plan, you have to create a road map of where you are going. This is no different in trading. You have to set goals for your trading business. How many points do you plan on making monthly, quarterly?

For you day traders, how many points do you plan to make per week? Your goals should align with your profit targets and trading habits. These goals will not only be a way to measure your overall performance, but it will take away the uncertainty of the trading business. Unlike 95% of traders, you will know exactly where you will be in 1 year, five years, and even 20 years from today.

5 Review Your Trades

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

You can check across the web and pretty much any source related to day trading will tell you that premarket trading is a critical aspect of successful trading.

But, how do you know what to look for when it comes to price action? Should you place trades during the premarket? Should you give the same amount of credence to pre-market trading equally across every stock?

In this post, I will cover what I do in terms of premarket trading and how I use the early morning activity to help determine my trading plan for the day.

Identifying The Setups

1 Avoid Low Float Stocks

I know this is the direction you will hear from many trading experts on the web. From my experience trading, low float stocks are virtually impossible to trade using pure judgment. The moves are so sharp that it takes a unique risk profile to consistently make the right decisions and walk away from the markets with profits on a daily basis.

If you are unable to find float information, a simple way is to avoid penny stocks. If we are to speak in general terms, penny stocks often have low float due to the lack of investment dollars

2 Only Stocks 10 Bucks and Higher

So, when scanning for plays, you need to first filter out all of the stocks below to dollars. You will notice right away that the universe of possible plays is much smaller, but that's ok. We are looking for quality over quantity.

3 Stock is up/down 4% to 15%

This is the sweet spot for high float stocks that are priced accordingly. Too low of a move and you will likely waste time sitting in a position that has a low probability of turning into a big winner.

Trade something over 15% and odds are the bulk of the move has already occurred and the only thing left is either sideways action or a pullback from the peak points.

4 Volume of a Few Hundred Thousand

There will be times that you see a stock up huge, but only on 15,000 shares. This will give the illusion that there is far more upside, but with such low volume, it only takes a reasonably backed trader to place a sell order to squash your morning paper profits.

So, you need to look at how much the stock normally trades on a daily basis. But at a minimum, you should look for 100k shares. This, of course, is not enough for a stock like Apple but for a stock that trades on average 500k shares daily, a 100k shares is good premarket movement.

5 Universe of Possible Plays

After you filter the early movers based on these criteria, you will have a list that looks similar to something like the below graphic.

%Chg	Last	Symb	Company
~~52.03%~~	~~9.00~~	~~FOMX~~	~~Foamix Pharmaceuti~~
~~15.62%~~	~~2.96~~	~~ALQA~~	~~Alliqua Biomedical~~
15.39%	118.55	GLPG	Galapagos NV
8.29%	25.34	HEAR	Turtle Beach Corpo
~~6.91%~~	~~2.97~~	~~FRSX~~	~~Foresight Autonomo~~
5.41%	25.72	CDLX	Cardlytics Inc.
4.81%	100.40	TLRY	Tilray Inc.
4.46%	45.20	CCE	Coca-cola European
~~4.42%~~	~~3.31~~	~~NOG~~	~~Northern Oil and G~~
~~4.05%~~	~~4.75~~	~~PACB~~	~~Pacific Bioscience~~
4.02%	21.50	BHC	Bausch Health Comp
3.46%	74.73	GILD	Gilead Sciences In
~~2.96%~~	~~4.18~~	~~CHK~~	~~Chesapeake Energy~~
~~2.90%~~	~~17.04~~	~~SONO~~	~~Sonos Inc.~~
~~2.52%~~	~~2.85~~	~~BTE~~	~~Baytex Energy Corp~~

Filtered List of Stocks

6 Trade Clean Charts

Next up, you want to find a stock with a clean chart. What is the definition of a clean chart? You want to see setups that have a nice basing pattern and not running up into a parabolic peak.

Clean Chart Example

Horizontal Base Building

Now the opposite of a clean chart is one that spikes right before the open or starts to trend against the primary trend in a slow and methodical fashion.

Ugly Pre-Market Trading Action

Not a Clean Chart

7 Identify Highs and Lows of the Pre-Market Trading Session

The most important things to capture during pre-market trading is the high and lows from the session. While pre-market trading is on light volume, these key price points will act as magnets during the regular session.

This is for a number of reasons. First traders that placed, for example, short trades, while often place their stops right above the pre-market high. Secondly, breakout traders will at times ignore the days' high and focus on the pre-market high as the place to enter the trade.

Pre-Market High - Low

8 Pulling the Trigger

At this point, you are ready to pull the trigger. You have filtered the stocks down to a manageable list and have identified the high and low points from early trading.

So, what do you do next?

Proper Risk to Reward Ratio

Find the stocks with the best risk to reward ratios. On the web, you will see 3 to 1 as the common ratio but remember the market will not always make itself available to this degree.

Therefore, if you can find setups with 2 to 1 or even 1.5 to 1, feel free to pull the trigger. The key point is that you are placing odds in your favor. So, once you are able to trade with a higher degree of accuracy, by also having a greater reward on each trade than what you are risking, you are sure to come out on top.

Place Your Order Slightly Beyond the Pre-market Highs and Lows

You should place y0ur stops slightly beyond the pre-market highs and lows. At times, you will see nasty head fakes where a stock will tip over the high only to retreat lower.

I see this mostly with low float stocks that trap people in subpar stocks, thus completing the dump action and creating tons of bag holders.

This can still happen in high float stocks, but the repercussions of being wrong are not as steep. Again, a way to manage this risk is to place your orders slightly beyond the pre-market levels.

Order Type

For me, I only place stop limit orders. This allows me to enter the trade beyond the pre-market high but place boundaries on how high I am willing to enter the trade.

This allows me to define my limits in order to adhere to my risk to reward requirements on the trade.

Example of Putting it All Together

So, far we have covered how to filter stocks down in the pre-market, but let's now go through a play-by=play of how you would do this on a real trading day.

Filter Down the List

First, we start off by looking at the top gainers for the day. You can accomplish this by looking at the market movers widget in Tradingsim.

Sym	Price	G/L
ORIG	31.00	+3.92 (+14.48%)
CRON	10.78	+0.90 (+9.11%)
TLRY	70.51	+5.31 (+8.14%)
GERN	6.15	+0.42 (+7.33%)
ATAI	2.33	+0.16 (+7.31%)
QTNA	19.35	+1.08 (+5.91%)
RIGL	3.60	+0.19 (+5.57%)
RRD	5.30	+0.24 (+4.74%)
MESA	14.42	+0.63 (+4.57%)

Sym	Price	G/L
ZUMZ	32.55	+1.40 (+4.49%)
SHLD	1.40	+0.06 (+4.47%)
RIOT	6.54	+0.24 (+3.88%)
LE	26.65	+0.95 (+3.70%)
LTRX	5.50	+0.18 (+3.42%)
OILU	57.86	+1.77 (+3.16%)
ECYT	20.29	+0.57 (+2.90%)
PXLW	5.67	+0.16 (+2.88%)
CRSP	58.18	+1.51 (+2.67%)

Top Pre-Market Movers

Next, we filter down these stocks based on volume, float, spreads, percentage gain and price. This then takes a large list like the one above and now makes it manageable.

Sym	Price	G/L
~~ORIG~~	~~31.00~~	~~+3.92 (+14.48%)~~
CRON	10.78	+0.90 (+9.11%)
~~TLRY~~	~~70.51~~	~~+5.31 (+8.14%)~~
~~GERN~~	~~6.15~~	~~+0.42 (+7.33%)~~
~~ATAI~~	~~2.33~~	~~+0.16 (+7.31%)~~
~~QTNA~~	~~19.35~~	~~+1.08 (+5.91%)~~
~~RIGL~~	~~3.60~~	~~+0.19 (+5.57%)~~
~~RRD~~	~~5.30~~	~~+0.24 (+4.74%)~~
MESA	14.42	+0.63 (+4.57%)
ZUMZ	32.55	+1.40 (+4.49%)
~~SHLD~~	~~1.40~~	~~+0.06 (+4.47%)~~
~~RIOT~~	~~6.54~~	~~+0.24 (+3.88%)~~
~~LE~~	~~26.65~~	~~+0.95 (+3.70%)~~

Filtered Stock List

Identify Clean Chart

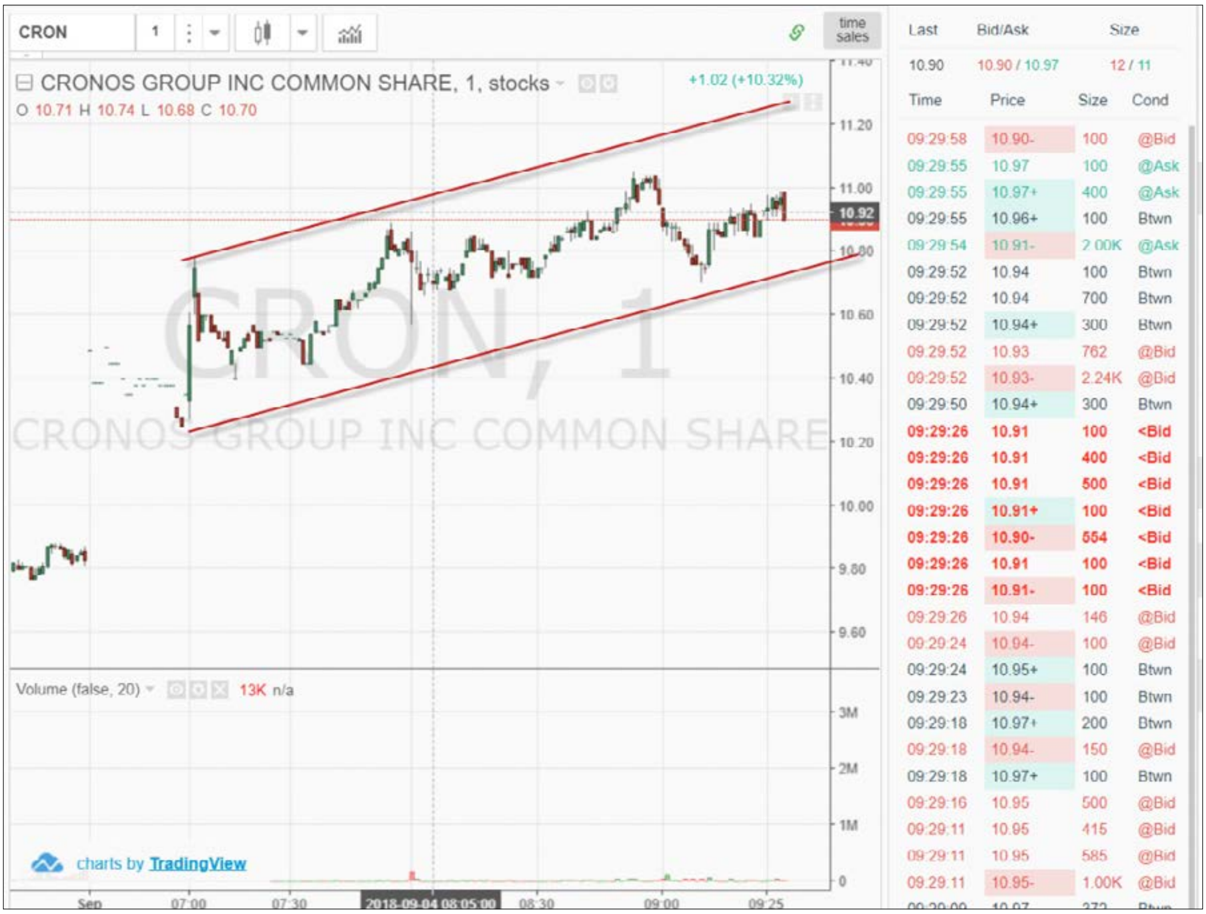
Next, we want to find the stock with the cleanest chart.

First up is ZUMZ.

ZUMZ Pre-Market Setup

ZUMZ simply does not have enough pre-market volume trades to identify a pattern.

Next up is CRON.



CRON had great volume and price structure. However, the stock was running in an up channel and any breakout would just run the stock up to resistance from the morning.

This actually happened which you can see below.

For those of you that wonder why a stock reverses right after gapping up on the open, you only need to look at the support and resistance lines formed in the pre-market to get your answer.

With only one stock left, MESA, let's see if things get better.

MESA had no volume and no clear chart pattern.

Therefore, on this particular day, there were no clear pre-market setups to trade on the open.

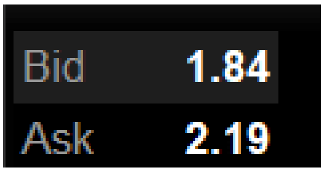
Now, this does not mean there were no good setups for the trading day. It just means there were no strong patterns which developed prior to 9:30 am.

This is a critical point for you to remember. There are days where there are no setups early in the morning. You have to become comfortable with this fact and demonstrate patience before placing trades.

Why I Do Not Place Pre-Market Trades

I do not place trades during the pre-market for a host of reasons. Let me go a little deeper since that response was way to the point.

Huge Spreads



Large Spreads

First, the spreads during pre-market trading are too great. A stock with a normal spread of less than .25% could now have spreads of .75% and up. This makes it challenging to get my desired price.

Thin Volume

Light Volume

If a stock trades a few hundred thousand shares during the pre-market this is considered to be great. The only problem with this is that a stock can move against you without many participants.

For these two reasons, I do not place trades in the early morning.

Only Reason You Should Trade in the Pre-Market

The one caveat to trading in the pre-market is if for some reason you are holding a day trade overnight. In the morning, you can at times get spike moves, again on low volume which you can use to exit your position.

Two wongs in life normally don’t make a right, but if you start to break your rules and hold trades overnight, closing the trade out is of critical importance.

In Summary

Finding good setups comes down to executing the same filters on a daily basis. Remember, just because you do not find a trade in the pre-market does not mean you won't find good setups during the day.

To learn more about Tradingsim and how you can scan the market for pre-market trades, please visit our homepage to learn about our latest offerings.

Pivot Points Explained

Today we will go through the most significant levels in day trading – daily pivot points. When you finish reading this article, you will know the 5 reasons why day traders love using them for entering and exiting positions. The information listed in this article can be included as a part of your overall trading plan.

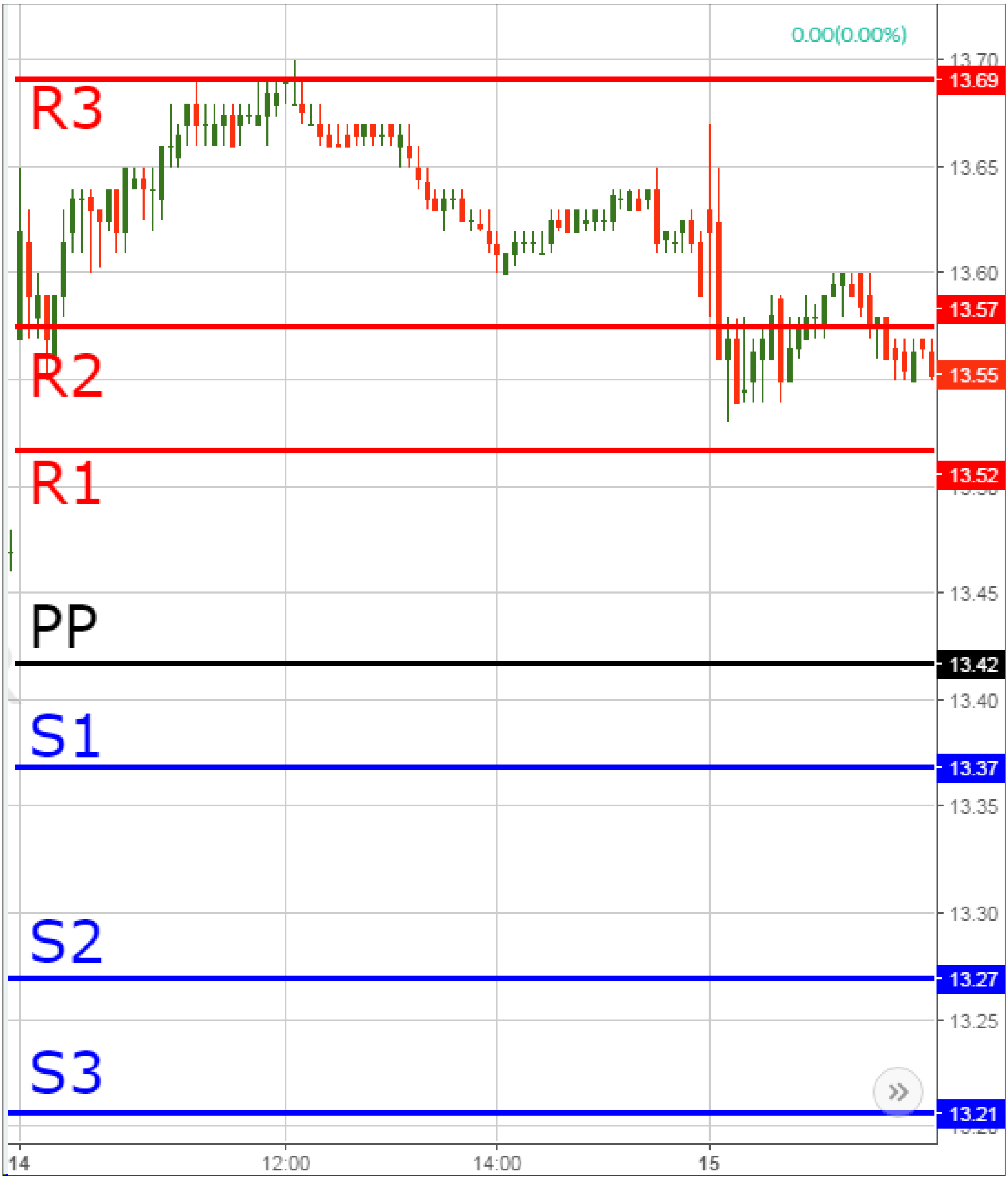
Pivot Point Levels

Daily pivot points are calculated based on the high, low, and close of the previous trading session.

There are seven basic pivot levels on the chart:

Basic Pivot Level (PP) –	This is the middle and basic pivot point on the chart.
Resistance 1 (R1) –	This is the first pivot level above the basic pivot level.
Resistance 2 (R2) –	This is the second pivot level above the basic pivot point, and the first above R1.
Resistance 3 (R3) –	This is the third pivot level above the basic pivot point, and the first above R2
Support 1 (S1) –	This is the first pivot level below the basic pivot point.
Support 2 (S2) –	This is the second pivot level below the basic pivot point and the first below S1.
Support 3 (S3) –	This is the third pivot level below the basic pivot, and the firs below S2.

When you add the seven pivot levels, you will see five parallel horizontal lines on the chart.



Pivot Points

The above chart is zoomed out in order to show all 7 pivot levels.

Pivot Point Calculation

Let's now discuss the way each of the five pivot points is calculated. First, we need to start with calculating the basic pivot level (PP)– the middle line.

PP Calculation

Below is the formula you should use to determine the PP level on your chart:

Pivot Point (PP) = (Daily High + Daily Low + Close) / 3

R1 R2 S1 S2 Pivot Levels Calculation

Now that we know how to calculate the PP level, let's proceed with calculating the R1, R2, S1, and S2 pivot levels:

R1 = (2 x Pivot Point) – Daily Low

R2 = Pivot Point + (Daily High – Daily Low)

S1 = (2 x Pivot Point) – Daily High

S2 = Pivot Point – (Daily High – Daily Low)

R3 S3 Pivot Levels Calculation

We are almost done with the pivot point calculation. There are two more levels to go – R3 and S3.

R3 = Daily High + 2 x (Pivot Point – Daily Low)

S3 = Daily Low – 2 x (Daily High – Pivot Point)

See that the formulas for R1, R2, R3, S1, S2, and S3 all include the PP value.

This is why the basic pivot level is crucial for the overall pivot point formula. Therefore, you should be very careful when calculating the PP level. After all, if you incorrectly calculate the PP value, your remaining calculations will be off.

Pivot Points 2

You are now looking at a chart, which takes two trading days. Each trading day is separated by the pink vertical lines. We use the first trading session to attain the daily low, daily high, and close.

Daily High = 14.39

Daily Low = 14.28

Close = 14.37

Then we apply the three values in the formulas above, and we get the following results:

PP = 14.35

R1 = 14.42

R2 = 14.46

R3 = 14.53

S1 = 14.31

S2 = 14.24 (not visible)

S3 = 14.20 (not visible)

How to Draw the Pivot Point Stock Market Indicator

The pivot point stock market indicator should be applied on the chart as follows:

- PP level
- R1 and S1
- R2 and S2
- R3 and S3

When you follow this order there is a small chance that you might mistakenly tag each level. To avoid this potential confusion, you will want to color code the levels differently.

For example, you can always color the PP level black. Then the R1, R2, and R3 levels could be colored in red, and S1, S2, and S3 could be colored in blue. This way you will have a clear idea of the PP location as a border between the support and the resistance pivot levels.

Some trading platforms have a built-in pivot point indicator. This means that the indicator could be automatically calculated and applied on your chart with only one click of the mouse. This will definitely save you a ton of time.

How Pivot Points Work

Pivot points provide a standard support and resistance function on the price chart.

When price action reaches a pivot level it could be:

- Supported/Resisted
- Extended (breakouts)

If you see the price action approaching a pivot point on the chart, you should treat the situation as a normal trading level. If the price starts hesitating when reaching this level and suddenly bounces in the opposite direction, you can then trade in the direction of the bounce.

However, if the price action breaks through a pivot, then we can expect the action to continue in the direction of the breakout. When price clears the level, it is called a pivot point breakout.

Day Trading with Pivot Points

Now that we understand the basic structure of pivot points, let's now review two basic trading strategies – pivot point bounces and pivot level breakouts.

Pivot Point Breakout Trading

To enter a pivot point breakout trade, you should open a position using a stop limit order when the price breaks through a pivot point level. These breakouts will mostly occur in the morning. If the breakout is bearish, then you should initiate a short trade. If the breakout is bullish, then the trade should be long.

You should always use a stop loss when trading pivot point breakouts. A good place for your stop would be a top/bottom which is located somewhere before the breakout. This way your trade will always be secured against unexpected price moves.

You should hold your pivot point breakout trade at least until the price action reaches the next pivot level.

Pivot Point Breakout Strategy

This is the 5-minute chart of Bank of America from July 25-26, 2016. The image illustrates bullish trades taken based on our pivot point breakout trading strategy.

The first trade is highlighted in the first red circle on the chart when BAC breaks the R1 level. We go long and we place a stop loss order below the previous bottom below the R1 pivot point. As you see, the price increases rapidly afterwards.

We hold the trade until the price action reaches the next pivot point on the chart. When this happens, the price creates a couple of swing bounces from R2 and R1.

After bouncing from R1, the price increases and breaks through R2. This creates another long signal on the chart. Therefore, we buy BAC again.

There is a long lower candlewick below R2, which looks like a good place for our stop loss order. The price then begins hesitating above the R2 level. In the last hours of the trading session, BAC increases again and reaches R3 before the end of the session. This is an exit signal and we close our trade.

Pivot Point Bounce Trading

This is another pivot point trading approach. However, this time we will stress the cases when the price action bounces from the pivot levels.

Here you should open trades if the price reaches a pivot point and bounces.

If the stock is testing a pivot line from the upper side and bounces upwards, then you should buy that stock. If the price is testing a pivot line from the lower side and bounces downwards, then you should short the security.

The stop loss order for this trade should be located above the pivot level if you are short and below if you are long.

Pivot point bounce trades should be held at least until the price action reaches the next level on the chart. This is how it works:

Pivot Point Bounce Strategy

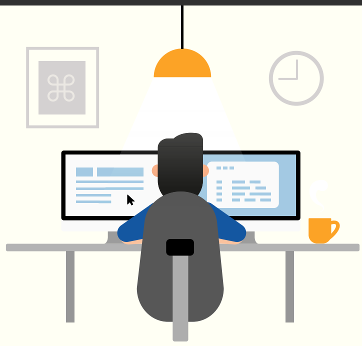
Above is a 5-minute chart of the Ford Motor Co. from July 14, 2016. The image shows a couple of pivot point bounce trades taken according to our strategy.

Our pivot point analysis shows that the first trade starts 5 periods after the market opening. The price goes above R2 in the opening bell. Then we see a decrease and a bounce from the R2 level. This creates a long signal on the chart and we buy Ford placing a stop loss order below the R2 level.

The price enters a bullish trend and we will stay with the trade until Ford touches the R3 level. We close the trade when this happens.

However, the price bounces downwards from the R3 level. This is another pivot point bounce and we short Ford security as stated in our strategy. A stop loss order should be placed above the R3 level as shown on the chart.

After a short consolidation and another return and a bounce from the R3 level, the price enters a bearish trend. We hold the short trade until Ford touches the R2 level and creates an exit signal.



5 COMMON MISTAKES WHEN TRADING WITH PIVOT POINTS

1. ONLY LOOKING AT THE **CURRENT DAYS** PIVOT POINT
2. SHORTING STOCKS THAT GAP OVER **R4 PIVOT** LEVEL
3. TRADING **LOW FLOAT** STOCK
4. PLACING STOPS **RIGHT AT SUPPORT AND NOT** SLIGHTY BELOW
5. GREED **NOT** EXITING AT PP LEVEL

TweetTweet

Trades that Clear S4 or R4

These are the setups you really want to hone in on. Think about it, why buy a stock that has resistance overhead. You can just as easily invest in a stock that has the wind to its back and you can ride the wave higher.

If there is no one looking to sell at a pivot point resistance level and there are no swing highs - that equals odds in your favor.

I mean even when things go wrong, you are still likely to come out even or at least have a fighting chance.

This going with the trend, of course, works just as well with shorts that clear S4 support.

Here is an example I literally just traded today for the stock Advanced Auto Parts (AAP).

Pivot Points and FIbonacci Levels

Is there anything different on the chart that you weren't expecting to see?

If you can't point it out, it's Fibonacci levels. Once a stock has cleared all of the daily pivot points, the next thing you need to look for are the overhead Fibonacci extension levels and swing highs from previous moves.

These levels can be used as your target areas for your trades. You can then use these levels to calculate your risk-reward for each trade.

Back to the trade example above, I bought AAP on the break of both the pre-market and intra-day high. After purchasing the stock, it's now about holding on and riding the trend up to the next Fibonacci level up at 261.8% retracement.

At this point as previously stated in articles across the Tradingsim blog, I do not get greedy. I always look to clean off my trade slightly below the level.

Try applying these techniques to your charts to identify the levels tracked by professional traders.

Pivot Points and High Float Stocks

This is something I will highlight quickly without the use of charts. One point I am really pushing hard on the Tradingsim blog is the power of trading high float, high volume stocks.

Nowadays so many gurus are talking about low float, momo stocks that can return big gain. Well, I am here to tell you that high float is still in.

The beautiful thing about high float stocks is that these securities will adhere to and trade in and around pivot point levels in a predictable fashion.

If you are a trader just starting out in pivot points and want to get a handle on things, you will want to start with these large-cap stocks. Once you get a handle on things, you can always progress to the penny stocks.

However, to be totally clear - I am a high float man!

How Pivot Points Helps Build Consistency

This is where pivot points honestly took me from pulling my hair out to consistent profits.

For me, I would obsess about when to exit my trade. My entries were solid but I always had sellers remorse. I would either regret getting out too early or holding on too long.

This is something I struggled with for years - not months.

To this point, once I included pivot points in my trading it was like going from the dark and stepping into the light. The beauty of using pivot points is that you have three clear levels: (1) where to enter the trade, (2) where to exit the trade and (3) where to place your stop.

If you are the type of person that has trouble establishing these trading boundaries, pivot points can be a game changer for you.

To further illustrate this point, check out the below charts.

Entry, Exit, Stops

Entry, Exit, Stops - 2

Do you see the beauty of the pivot points on the chart?

If you struggle with where to place your stops, entries and profit targets, pivot points take care of all of that for you.

You do not need some expensive trading system or AI program to accomplish this goal.

The other major point to reiterate is that you can quickly eyeball the risk and reward on each trade. Therefore over time, you will inevitably win more than you lose and the winners will be larger.

This, my friend, is how you build wealth - one trade at a time.

Knowing When You are In a Losing Trade with Pivot Points

The other key point to note with pivot points is that you can quickly identify when you are in a losing trade.

Cannot Hold Pivot Level

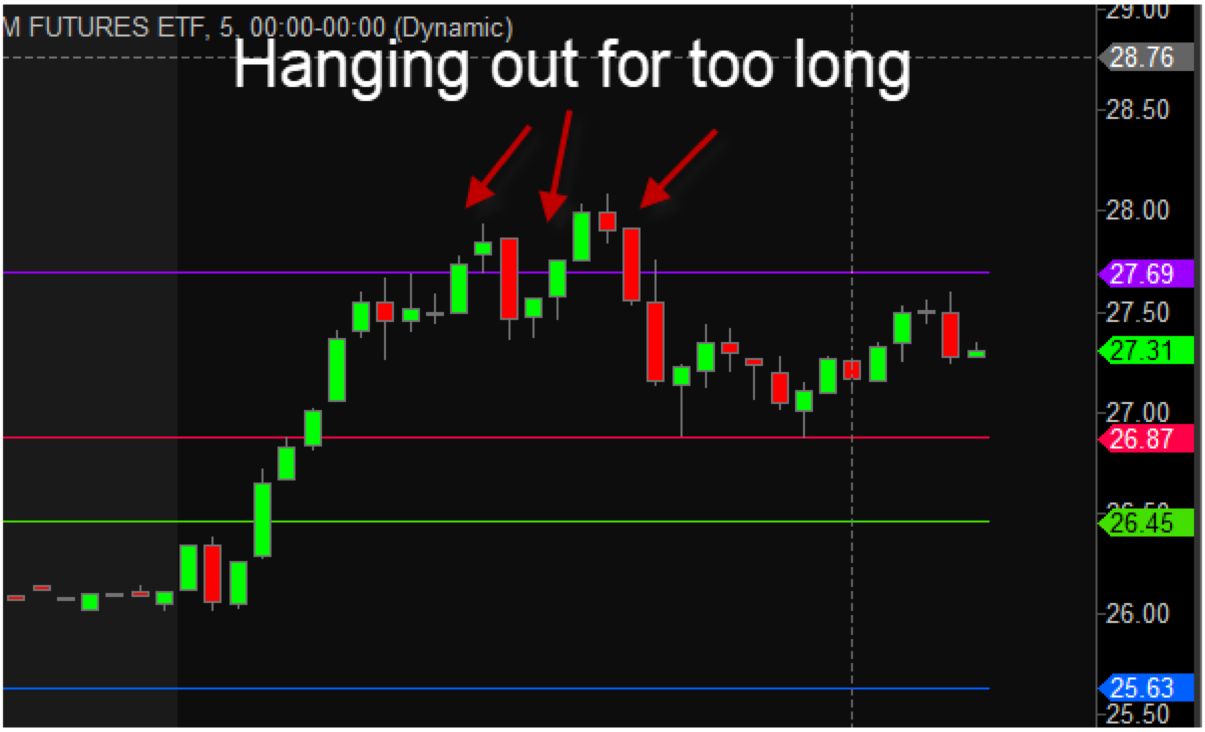
If you are going long in a trade on a break of one of the resistance levels and the stock rolls over and retreats below this level - you are likely in a spot.

Cannot Hold the Level

Time Lapse

This does not mean you need to run for the hills but it does mean you need to give the right level of attention to price action at this critical point. The other point is to consider the amount of time that passes after you have entered your position.

If you are sitting there below or right around the breakout level 30 minutes after entering the trade - the stock is screaming warning signals.



Too Much Time

Do not over think exiting bad trades. If you find yourself in a trade that is stalling or not holding a level just exit the trade. Waiting around for something to happen will lead to more losses.

Beyond the money, the major issue you will face is the emotional turmoil of tacking such a loss. Remember, do not think - just close the trade!

Pivot Points from Prior Days

Most charting software will allow you to select whether you want to see the current day's pivot points or if you would like to see pivot points from prior days.

At first glance it's easy to want to focus on the current day levels as it provides a clean [chart pattern]; however, prior days levels can trigger resistance on your chart.

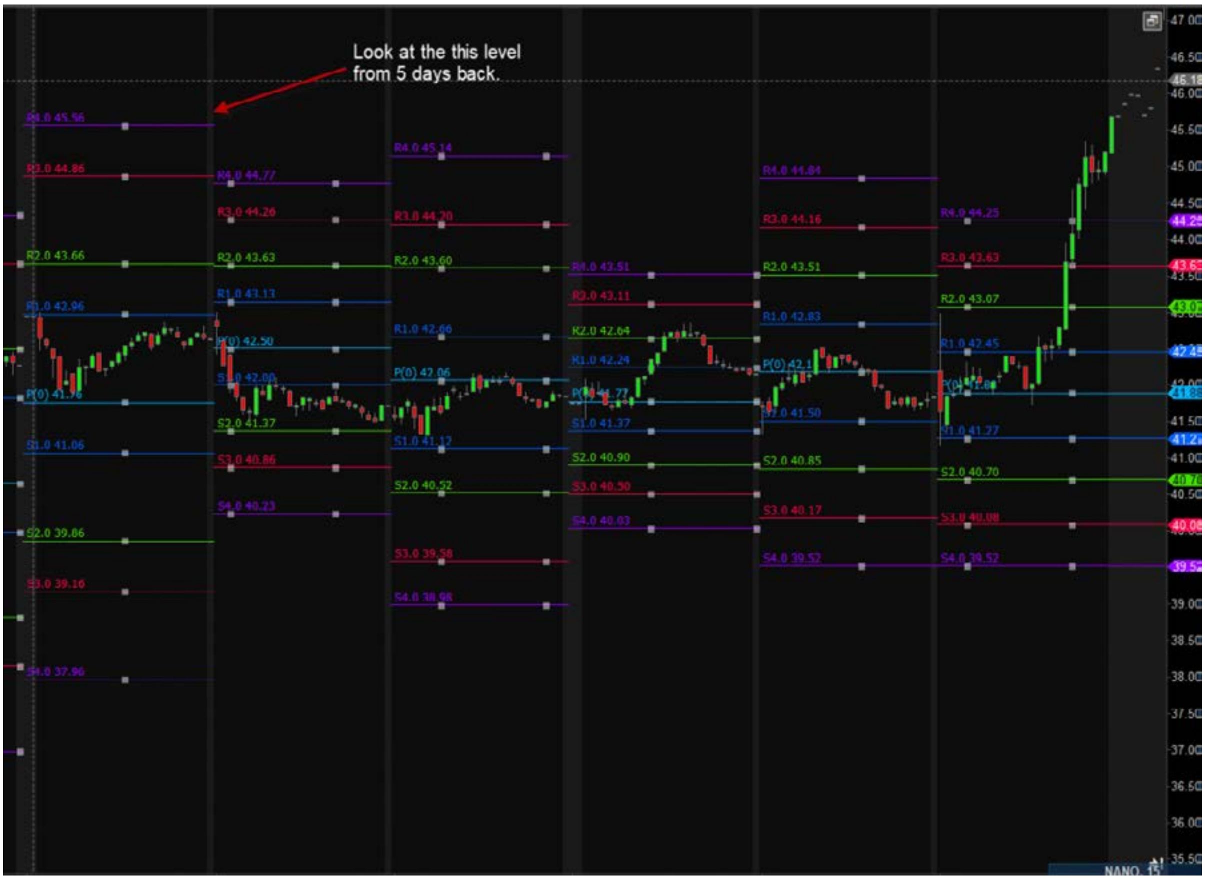
R4 Level Cleared

In the above chart of NANO you can see that the R4 level was cleared. The next question you are likely to ask yourself is where will NANO stop?

Well looking at the pivot points for the day, you really have no way of making that determination.

Multiple Days of Pivot Point Levels

Now let's take another look at that example with more than one day's worth of pivot point data.



Multiple Days of Pivot Points

As you can see in the chart, there are a number of resistance levels near our closing price on the day. Like any other indicator, there is no guarantee the price will stop on a dime and retreat.

The point of highlighting these additional resistance levels is to show you that you should be aware of the key levels in the market at play.

You will need to look at level 2 or [time and sales] to see which level you need to focus on. This is the real challenge. If you immediately sell you will possibly forego big profits.

For me personally, I sell out at the next resistance level up. While I am likely leaving money on the table, there is a greater risk of me being greedy and looking for too much in the trade.

Placing Stops

Trading with pivot points allows you the ability to place clear stops on your chart. Now from my experience, what you do not want to do is simply place your stops right at the next level up or down.

You have to take more care when identifying your stop placement. Remember, you are not the only one that is able to see pivot point levels. Anyone with a charting application will know the R1, R2 and R3 levels.

So, how do you still protect your trade but without risking too much?

Beyond Key Psychological Price Levels

For me what has worked is placing the stop slightly beyond the levels. To take it a bit further, you will want to hide the stop behind logical price levels.

For example, if you have an S1 level at $19.65, then you will want to place your stop at $19.44. Why at this level? 50 cents is a big mental price level for stocks under $20 bucks.

Therefore, you will likely have a large number of stops right at the level. Therefore, if you place your stop slightly beyond this point, you will likely avoid being stopped out of the trade.

Volume at Price

Another method is to look at the amount of volume at each price level. If you are long and are eyeing an S1 level to stop the selling pressure you can also see how much volume is at a certain level.

You can then place your stop slightly below or above these levels. Let's look at a chart to illustrate this point.

Volume at Price - Pivot Points

In the above example, notice how the volume at the support level was light. This shows you that there was not a lot of selling pressure at this point and a bound was likely to occur at support.

Next, notice how the price breached the S3 level by a hair and then reversed higher. For this type of setup, you want to see the price hold support and then you can set your target at a resistance level that has accompanying volume. After BLFS bounced, it ran up to the R1 resistance before consolidating which coincidentally had a decent amount of volume at the $19.15 price level.

Notice if you were long, a stop directly below the S3 level would have kept you in the trade.

5 Reasons Why Day Traders Love Pivot Points

1

Unique for Day Trading

The pivot points formula takes data from the previous trading day and applies it to the current trading day. In this manner, the levels you are looking at are applicable only to the current trading day. This makes the pivot points the ultimate indicator for day trading.

2

Short Time Frames

Since the pivot points data is from a single trading day, the indicator could only be applied to short time frames. The daily and the 30-minute chart would not work, because it will show only one or two candles.

The best timeframes for the pivot point indicator are 1-minute, 2-minute, 5-minute, and 15-minute. Therefore, the indicator is among the preferred tools for day traders.

3

High Accuracy

The pivot point indicator is one of the most accurate trading tools. The reason for this is that the indicator is used by many day traders. This will allow you to trade with the overall flow of the market.

4

Rich Set of Data

Pivot points on charts provide a rich set of data. As we discussed above, the indicator gives seven separate trading levels. This is definitely enough to take a day trader through the trading session.

5

Easy to Use

The PP indicator is an easy-to-use trading tool. Most of the trading platforms offer this type of indicator. This means that you are not required to calculate the separate levels; the Tradingsim platform will do this for you. Your only job will then be to trade the bounces and the breakouts of the indicator.

Conclusion

1. The pivot points are levels on the chart which are attained from previous day data and concern only the current day.
2. The data which the pivot point indicator takes from the previous trading session is:
   - Daily High
   - Daily Low
   - Close

   To calculate the pivot lines you should then apply the following formulas:

1.
   - Pivot Point (PP) = (Daily High + Daily Low + Close) / 3
   - R1 = (2 x Pivot Point) – Daily Low
   - R2 = Pivot Point + (Daily High – Daily Low)
   - R3 = Daily High + 2 x (Pivot Point – Daily Low)
   - S1 = (2 x Pivot Point) – Daily High
   - S2 = Pivot Point – (Daily High – Daily Low)
   - S3 = Daily Low – 2 x (Daily High – Pivot Point)

1. Draw each of the levels one by one and color the levels differently in order to avoid confusions.
2. Two of the most popular pivot points trading strategies are:
   - Pivot Point Breakout Trading
   - Pivot Point Bounce Trading

1. Day Traders love the Pivot Point indicator because:
   - It is unique for day trading.
   - It uses short time frames.
   - The pivot point levels are relatively accurate.
   - The pivot point indicator gives a rich set of data – 7 levels.
   - The indicator is very easy to use.

7. Pivot points also work well with [futures markets] and forex.

Learn How to Day Trade with the VWAP – Video

Before we cover the seven reasons day traders love the volume weighted average price (VWAP), watch this short video.

This video is a great primer before we dig into advanced techniques and strategies.

7 Reasons Day Traders Love the VWAP

Chapter-1 WAP Overview

Finding the average price based on the closing value will not provide an accurate picture of a stock's health.

This is where the VWAP comes into play.

If you are wondering what the VWAP is, then wait no more. The VWAP identifies the true average price of a stock by factoring the volume of transactions at a specific price point and not based on the closing price.

Did the stock close at a high with low volume? Did the stock move to a new low with light volume?

These are all critical questions you would want to be answered as a day trader before pulling the trigger.

This is where the VWAP can add more value than your standard 10, 50, or 200 moving average indicators because the VWAP reacts to price movements based on the volume during a given period.

In this article, we will explore the seven reasons day traders love using the VWAP indicator.

While we have highlighted day traders, what we will discuss in this article is also applicable for swing traders and those of you that love daily charts.

So, if you do not partake in the world of day trading, no worries, you will still find valuable nuggets of information in this post.

Now that your expectations are set, before we dig into why traders love the VWAP, let's first walk through a few key concepts when using the indicator.

Most importantly, I want to make sure we have an understanding of where to place entries, stops, and targets.

Entries + Stops + Targets

Chapte-2 VWAP Setups

After studying the VWAP on thousands of charts, I have identified two basic setups: pullbacks and breakouts.

By far, the VWAP pullback is the most popular setup for day traders hoping to get the best price. Remember, day traders have only minutes to a few hours for a trade to work out.

The VWAP breakout setup is not what you may be thinking. I am not looking for a breakout to new highs but a break above the VWAP itself with strength.

Now, let's dig into the entry points for these setups.

VWAP Pullback Entry

Entry Option-1 | Aggressive Traders

Aggressive VWAP Trade

The first option is for the more aggressive traders and would consist of watching the price action as it is approaching the VWAP.

Wait for a break of the VWAP and then look at the tape action on the time and sales.

You will need to identify when the selling pressure is spiking, and the tape is going crazy.

This, my friend, is more art than science and will require you to practice reading the tape.

The goal is to identify when the selling pressure is likely to subside and then enter the trade.

This approach will break most entry rules found on the web of simply buying on the test of the VWAP. The problem with this approach is you don't know if the price will breach the VWAP by 1% or 4%.

I learned the hard way, and if the VWAP were at $10, I would place my limit order at $10. At times there were traders who couldn't care less about the VWAP, and it would slice through the indicator with such swiftness, the lasting sting to my psyche persists until this day.

This technique of using the tape is not easy to illustrate looking at the end of day chart. You will need to practice this approach using Tradingsim to assess how close you can come to calling the turning point based on order flow.

VWAP Breakout Entry

Entry Option-2 | Risk Averse Traders

Conservative VWAP Entry

This is what I would recommend to traders that are new to the VWAP indicator.

Essentially, you wait for the stock to test the VWAP to the downside. Next, you will want to look for the stock to close above the VWAP.

You will then place your buy order above the high of the candle that closed above the VWAP.

While this is a more conservative approach for trade entry, it will open you up to more risk as you will likely be a few percentage points off the low.

You will need to determine where you are in your trading journey and your appetite for risk to assess which entry option works best for you.

It goes without saying that while we have covered long trades; these trading rules apply for short trades, just do the inverse.

Now that you are in the trade, where should you place your stop?

Aggressive Trade Stop

Aggressive Stop Price

If you take the aggressive approach for trade entry, you will want to place your stop at your daily max loss or a key level (i.e., morning gap).

Again, this can work, but be prepared for wild swings that can occur if you get things wrong.

Pullback Stop

Conservative Stop Order

The pullback stop is simple to identify; it is the most recent low point.

Therefore, after you enter the trade, if the stock begins to rollover, breaks the VWAP and then cuts through the most recent low – odds are you have a problem.

At this point, you will want to close the trade and protect your capital.

Chapter-3 WAP Target

Target

The target for the VWAP trade is my favorite part of this article, as I like to make money trading.

You have a few ways to determine your profit potential on each trade.

Selling at the Daily High

Sell at High of the Day

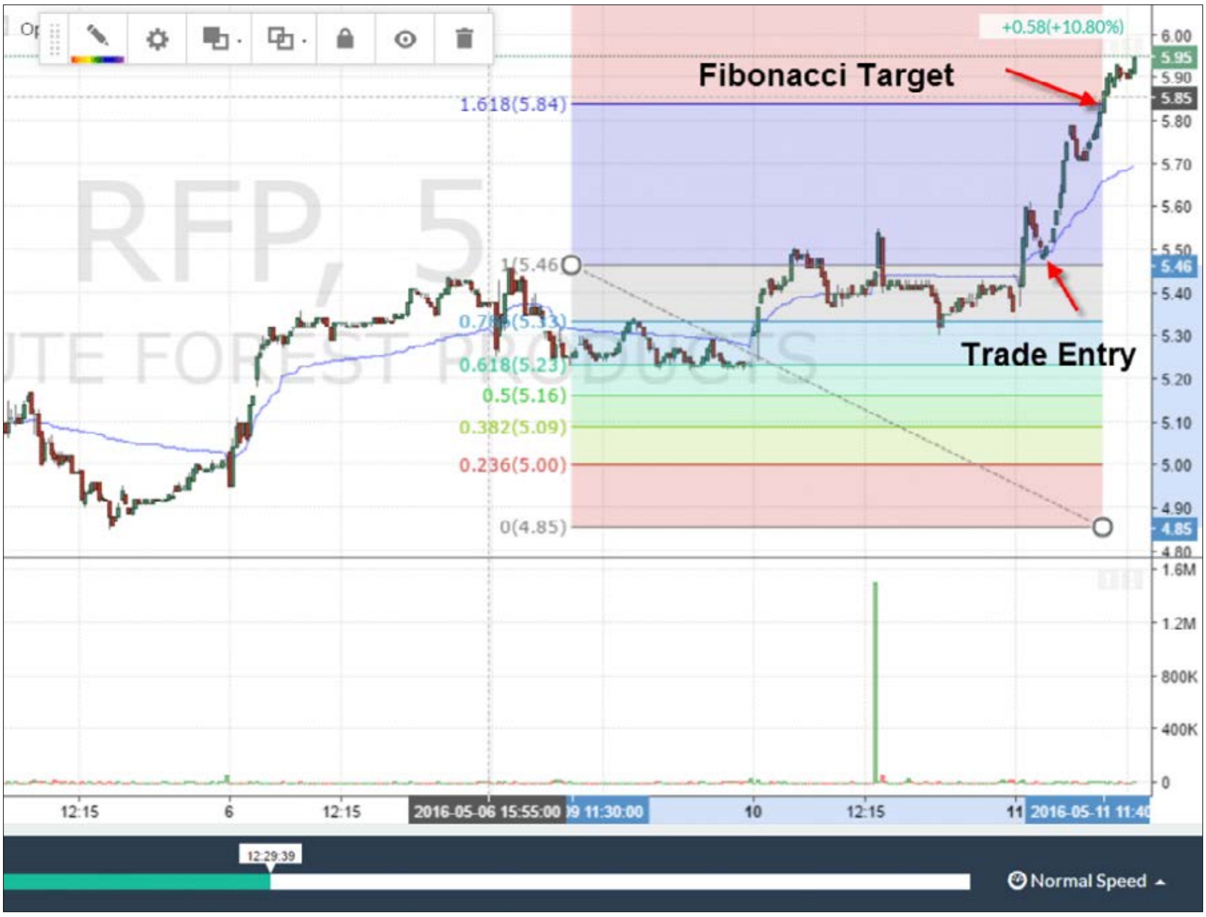
This is the most popular approach for exiting a winning trade for seasoned day trading professionals. After entering the trade, you place your stop below the most recent low and then look to the high of the day to close the position.

You will notice that after the morning breakouts that occur within the first 20-40 minutes of the [market opening](), the next round of breakouts often fails.

This is because the seasoned traders are selling their long positions to the novice day traders who buy the breakout of the high as we go beyond the first hour of trading. This gives the seasoned traders the opportunity to unload their shares to the unsuspecting public.

In case you are wondering, yes, this is legal.

Selling at a Fibonacci Extension Level



Fibonacci Extension + VWAP

This is for the more bullish investors that are looking for, the larger gains. This approach is based on the hypothesis that the stock will break the high of the day and run to the next [Fibonacci level](#).

This target can represent huge gains, often in the 4% to 10% realm for day trades. This, of course, means the odds of hitting this larger target is less likely, so you will need to have the right frame of mind to handle the low winning percentage that comes with this approach.

There, of course, other exit strategies, but these are my favorites.

Whichever methodology you use, just remember to keep it simple. The market is the one place that really smart people often struggle.

Chapter-4 Psychology of the VWAP Trade

If you have been trading for some time, you know the indicators and charts are just smoke and mirrors. Your success will come down to your frame of mind and a winning attitude.

So, let's take a break from the quantitative and get more into the fuzzy area of the state of mind.

Everything you need to make money is between your two ears

The VWAP trade is something that I have tested quite a bit and have achieved mixed results to date.

A pullback trade just makes sense when you look at it on paper.

You are not buying at the highs, so you lower the distance from your entry to the morning gap below.

Thus reducing the money, you are risking on the trade if you were to just buy the breakout blindly.

Also, you can monitor and "size up" the trading activity as the stock shifts back and forth trying to find its footing at the VWAP. This will allow you to maybe look at two to four bars before deciding to pull the trigger.

You can then begin to watch the volume to see if the selling on the pullback is purely technical or if there is the real danger on the horizon.

Sounds clean and neat uh?

Well, let's discuss what you will likely be thinking if a VWAP pullback does not go in your favor.

When things don't go so well

The next thing you will be faced with is when to exit the position. If the stock shot straight up, it will be tough to find a pivot point without opening yourself up to a significant loss.

If the stock does have a close pivot point, you now are faced with the option of seeing if the price closes below the VWAP, or if it can reverse and hold its ground.

What should you do?

These are the type of answers you need to have completely flushed out in your trading plan before you think of entering the trade.

The VWAP and quite frankly, no other indicator will address these internal questions/ conflicts you will be facing.

These are things that you need to manage and keep under control if you want to have any success in the markets.

When things go just right

I do not want to paint this doom and gloom picture for you, so let's shift to more of a positive tone.

Now, the flip side to this trade is when you get it just right. I mean the stock pulls back to the VWAP, you nail the entry and the stock just runs back to the previous high and then breaks that high.

Talk about a feeling of mastery; it's just lights out trading.

The stock will instantly go in your favor and depending on the volatility of the stock; you will find yourself up 2% to 3% without even blinking.

The money will literally fall into your account.

I have laid out these two scenarios so that you get a feel for what it means to be in a losing and winning VWAP trade.

Simply knowing when you are in a winner or a loser and how quickly it takes you to come to that conclusion will be the deciding factor between an up-sloping equity curve and one that runs into the ground.

Chapter-5 Real-Life Trading Examples

Now that you have a handle on the basics and psychology behind the setup, let's dig into a number of real-life trading examples.

Trump and Bank Stocks

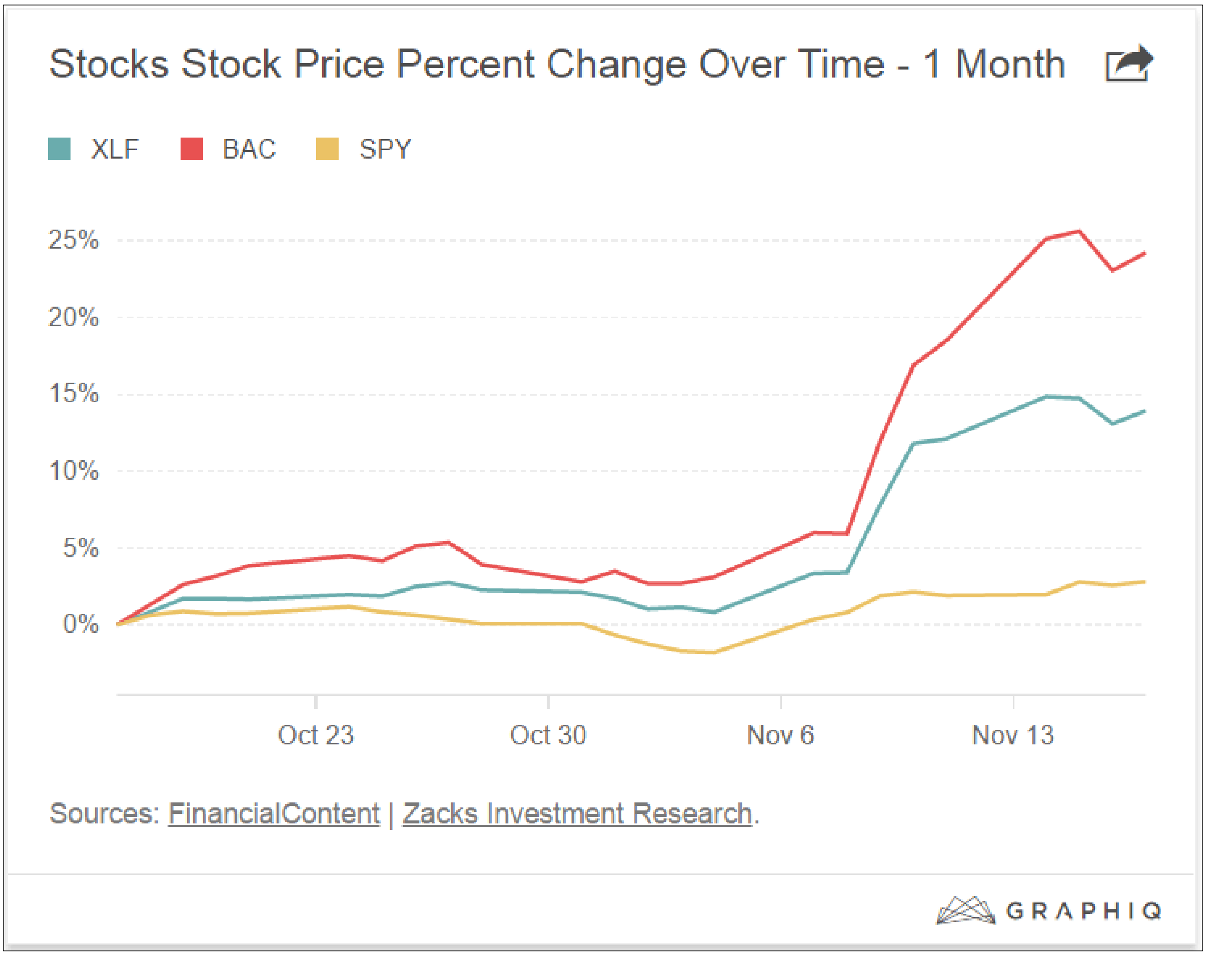
Let's review a real-life example to see what to do when things don't go as planned.

EXAMPLE-1 VWAP PULLBACK TRADE

In this trade example, we will review the Financial Sector ETF (XLF).

Why the XLF you might ask?

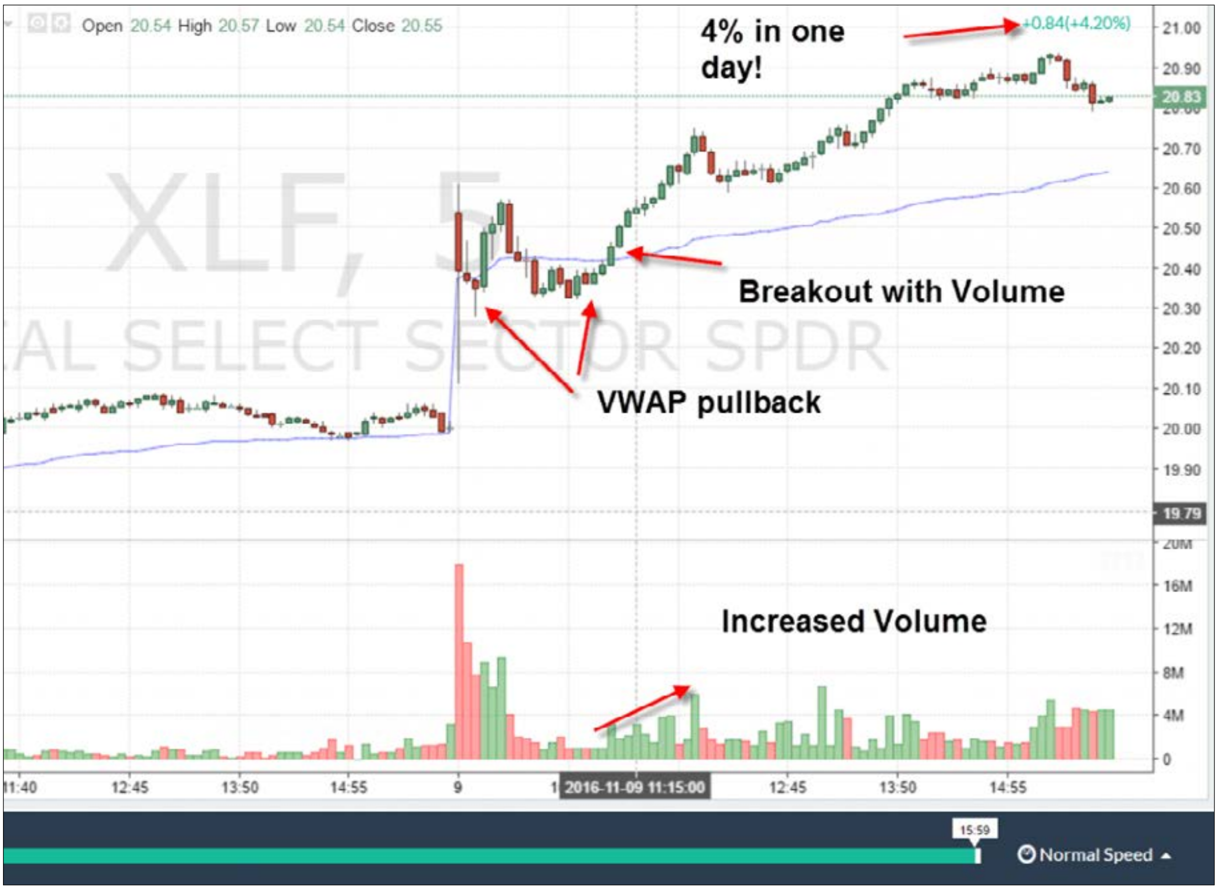
Well since the election of Donald Trump, banking stocks have been outperforming the broad market hand over fist, so I thought it would be great to highlight something that's currently taking place in the market.



Banking Sector

If you were long the banking sector, when you woke up on November 9th, 2017 you would have been pretty happy with the price action.

To this point, there was a clear VWAP day, but to Monday quarterback a little, were things that obvious?



VWAP Pullback Trade

Notice how the ETF had a huge red candle on the open as it gave back the gains from the morning. I would also like to highlight the gains were only there for a few seconds because this is not apparent looking at a static chart.

As a trader, how would you know if XLF was going to crash back through the VWAP on the third candle or if it would go higher?

Remember, the election of Trump was not expected, so it was really anyone's call what would happen on the open.

Then XLF experiences a slight rally, only to rollover again and retest the VWAP. Should you have bought XLF on this second test?

Notice how the XLF doesn't hold the VWAP and actually trades below the indicator.

Now that I have completely confused you, these are just a few of the things I want to highlight because these are likely the thoughts that will be running through your mind in real-time.

Another key point to highlight is that stocks do not honor the VWAP as if it is some impenetrable wall.

If you read other posts on the web about the VWAP, it gives you the impression that if a stock closes below the VWAP you have to run for the hills.

This is the furthest thing from the truth.

There are automated systems that push prices below these obvious levels (i.e. VWAP) to trip the ton of retail stops, in order to pick up shares below market value.

In addition, you may use the VWAP, but many traders do not have the indicator on their chart.

Therefore, what is so apparent to you is not even on another trader's radar.

Now, back to the trade.

The last thing that made this trade difficult is the volume action on the break above the VWAP didn't scream buy me.

However, if you look a little deeper into the technicals, you can see XLF made higher lows and the volume, albeit lighter than the morning, is still trending higher.

Once XLF was able to get back above the VWAP with steadily increasing volume, it never looked back.

Again, not the perfect setup technically, but if you can read in-between the lines, you could see the potential of the trade.

Remember as a trader, we are not here to guess how the news will affect prices; we just trade whatever is in front of us.

EXAMPLE-2 VWAP BREAKOUT TRADE

Let's dig a little deeper into VWAP breakout trades and the volume associated with these moves.

Volume to is the lens you can apply to the market, which can make sense of all the chaos.

VWAP Trade

This is a trade of Buckeye Partners, LLP where you can see the stock stayed below the VWAP for some period of time.

Then BPL was able to climb above the VWAP, but started to just hang around.

At this point, you could jump into the trade, since the stock has been able to reclaim the VWAP, but from what I have observed in the market, things can stay sideways for a considerable amount of time.

Remember, it's not just about placing trades; you need to place trades that will make the best use of your time and money.

The key thing you want to see is a price increase with significant volume. Will you get the lowest price for a long entry- absolutely not. However, you will receive confirmation that the stock is likely to run in your desired direction.

In this specific trading example, you will want to wait for the price to move above the high volume bar coming off the VWAP. This is a sign to you that the odds are in your favor for a sustainable move higher.

As a day trader, remember that move higher could take 6 minutes or 2 hours. You will have to judge the speed at which the stock clears certain levels in order to determine when to exit your long position.

Make sense?

Chapter-6 VWAP and Confluence

Chicken and Waffles

So, you could be asking yourself. “What does chicken and waffles have to do with trading?”

Everything.

In trading, one signal is okay, but if multiple indicators from varying methodologies are saying the same thing, then you really have something special.

If you are unfamiliar with the concept of confluence, essentially you are looking for opportunities where another technical support factor is at the same price of the VWAP.

For example, a Fibonacci level or a major trend line coming into play at the same level of the VWAP indicator.

Confluence

This confluence can give you more confidence to pull the trigger, as you will have more than just the VWAP giving you a signal to enter the trade.

This brings me to another key point regarding the VWAP indicator. There are great traders that use the VWAP exclusively. However, these traders have been using the VWAP indicator for an extended period of time.

When starting out with the VWAP, you will not want to use the indicator blindly. I'm not suggesting you throw 10 indicators on your chart for confirmation, but you will need to use some other validation tool to ensure you are seeing the market clearly.

Chapter-7 Finding VWAP Trades

Timing is everything in the market and VWAP traders are no different. While stocks are always trading above, below, or at the VWAP, you really want to enter trades when stocks are making a pivotal decision off the level.

To do this, you need to have the ability to scan for these setups in real-time.

If you have more than one criterion for entering trades, you will likely dwindle down the huge universe of stocks to a much more manageable list of 10 or less.

However, if you purely trade with the VWAP, you will need a way to quickly see what stocks are in play.

To do this, you will need a real-time scanner that can display the VWAP value next to the last price. You can then do a crosswalk of the VWAP with the current price to identify volatile stocks that are testing the indicator.

Symbol (524)	%Chg	Last	VWAP, 5	Volume (Total)
6090-TSE	+25.93%	1457.00	1409.08	1986000
4235-TSE	+20.92%	867.00	867.00	163000
8518-TSE	+18.87%	504.00	480.45	18230000
6239-TSE	+17.33%	677.00	676.11	164100
3689-TSE	+16.89%	9410.00	8943.44	1464000
7312-TSE	+13.86%	616.00	622.60	4475300
9467-TSE	+13.48%	1145.00	1155.88	318900
2372-TSE	+9.84%	1730.00	1725.51	2375400
5911-TSE	+8.66%	1292.00	1290.50	783400
7296-TSE	+7.95%	2133.00	2128.62	743200
6258-TSE	+7.47%	7480.00	7431.74	267200
5821-TSE	+7.20%	1295.00	1285.22	101700
6952-TSE	+7.11%	1506.00	1501.96	9913000
9857-TSE	+6.64%	787.00	770.84	105900
7211-TSE	+5.96%	551.00	550.24	34813300
8202-TSE	+5.84%	798.00	788.50	959200
2743-TSE	+5.80%	802.00	786.09	9080200
6616-TSE	+5.75%	1454.00	1437.63	369500
7014-TSE	+5.72%	721.00	718.27	712200
4240-TSE	+5.57%	512.00	508.88	112200

Symbol (524)	%Chg	Last	VWAP, 5	Volume (Total)
4240-TSE	+5.57%	512.00	508.88	112200
1879-TSE	+5.46%	966.00	965.20	222300
3918-TSE	+5.41%	2475.00	2449.23	126300
5726-TSE	+5.05%	1748.00	1745.05	781800
4574-TSE	+5.03%	1838.00	1832.20	160300
4047-TSE	+4.88%	902.00	898.18	2135000
3252-TSE	+4.68%	1946.00	1937.23	232900
4331-TSE	+4.64%	721.00	722.03	316900
7867-TSE	+4.58%	1165.00	1162.43	1661200
7222-TSE	+4.51%	1158.00	1155.97	267900
5727-TSE	+4.51%	788.00	788.04	1699000
8462-TSE	+4.46%	2107.00	2107.93	4027500
3753-TSE	+4.34%	1658.00	1597.54	2293900
6794-TSE	+4.34%	2068.00	2063.27	512100
2130-TSE	+4.33%	1059.00	1041.26	413500

VWAP Scanner

You are probably asking what are those numbers under the symbol column. For those of you that don't know, I trade the Nikkei at night from the States.

While I did not highlight every symbol nearing the VWAP, you get the point.

Another option if you have the ability to develop a custom scan is to take the difference of the VWAP and the current price and display an alert when that value is zero.

Essentially, this is the numerical representation that the price and VWAP are overlapping.

Chapter-8 7 Reasons Day Traders Love the VWAP

I'm hoping that the information thus far has increased your level of understanding when it comes to the VWAP indicator.

Now, we can shift into what first caught your attention – the 7 reasons day traders love the VWAP!

Reason -1 VWAP Calculation Factors in Volume

For the record, the VWAP formula is:

∑ Number of Shares Purchased x Price of the Shares ÷ Total Shares Bought During the Period

As you can see, by multiplying the number of shares by the price, then dividing it by the total number of shares, you can easily find out the volume weighted average price of the stock. Since the VWAP takes volume into consideration, you can rely on this more than the simple arithmetic mean of the transaction prices in a period.

To learn more about the VWAP formula, check out this article from Wikipedia.

Theoretically, a single person can purchase 200,000 shares in one transaction at a single price point, but during that same time period, another 200 people can make 200 different transactions at different prices that do not add up to 100,000 shares.

In that situation, if you calculate the average price, it could mislead as it would disregard volume.

Reason -2 VWAP Can Enable Day Traders to Buy Low and Sell High

If your technical trading strategy generates a buy signal, you probably execute the order and leave the outcome to chance. However, professional day traders do not place an order as soon as their system generates a trade signal. Instead, they wait patiently for a more favorable price before pulling the trigger.

Price of AAPL Compared to Its 5-Minute VWAP

If you find the stock price is trading below the VWAP indicator and you buy the stock at market price, you are not paying more than the average price of the stock for that given period.

With VWAP trading, you can stick to a trading strategy where you can always buy low.

By knowing the volume weighted average price of the shares, you can easily make an informed decision about whether you are paying more or less for the stock compared to other day traders.

Reason -3 A VWAP Cross Can Signal a Change in Market Bias

Buying low and selling high is all-great; however, if you are a momentum trader, you would look to buy when the price is going up and sell when the price is going down, right?

AAPL Crossing Above VWAP

A VWAP strategy called the VWAP cross can help you locate and trade momentum in the market.

Since the VWAP indicator resembles an equilibrium price in the market, when the price crosses above the VWAP line, you can interpret this as a signal that the momentum is going up and traders are willing to pay more money to acquire shares.

When the price crosses below the VWAP, consider this a signal that the momentum is bearish and act accordingly.

Reason -4 VWAP Can Act as Dynamic Support and Resistance

BONT Price Respecting VWAP Resistance

Day traders love the VWAP indicator because more than often, the price finds support and resistance around the VWAP. Although this is a self-fulfilling prophecy that other traders and algorithms are buying and selling around the VWAP line, if you combine the VWAP with simple price action, a VWAP strategy can help you find dynamic support and resistance levels in the market.

You should note the likelihood of a VWAP line becoming a dynamic support and resistance zone becomes higher when the market is trending.

Reason -5 VWAP Can Help You Confirm Counter Trend Trading Opportunities

VWAP Confirms the Oversold Signal Generated By the RSI Indicator

Ever wondered if a stock is overbought or oversold and if it's time to take a counter trend trade?

If you are just looking at the [RSI] or [Stochastics] and double guessing if this is a strong trend or the market will turn back, then adding the VWAP indicator on your chart can make your life much easier.

Professional day traders have a rule of thumb when using the VWAP - if the VWAP line is flatlining, but the price has gone up or down impulsively, the price will likely return to the VWAP line. However, if the VWAP line is starting to gradually go up or down along with the trend, it is probably not a good idea or good time to take a counter-trend position.

Reason - 6 VWAP Can Help You Reduce Market Impact

Most day traders do not understand that their actions can affect the market itself because we often trade our personal funds at the retail level. However, if you are a hedge fund manager or in charge of a large pension fund, your decision to buy a stock can drive up the price.

Just imagine for a second you are day trading and want to buy 5,000 shares of Apple (AAPL).

AAPL is a fairly popular stock and traders rarely face any liquidity problems when trading. Hence, you will quickly find a seller willing to sell his 5,000 AAPL shares at your bid price.

However, if you want to buy 1 million AAPL shares within 5 minutes and place a market order, you will probably buy up all the AAPL stock on sale in the market at your given bid price within a second. Once that happens, your broker will fill the rest of your order at any price imaginable, but probably higher than the current market price.

Congratulations, you have just bid the price up and impacted the market!

Placing a large market order could be counterproductive, as you will end up paying a higher price than you originally intended. Hence, when you want to buy large quantities of a stock, you should spread your orders throughout the day and use limit orders.

If you find the stock price is trading below the VWAP, you are paying a lower price compared to the average price, right? This way, a VWAP strategy can act as a guide and help you reduce market impact when you are dividing up large orders.

You may think this example only applies to big traders. But wait until you want to buy 10k shares of a low float stock.

You will soon find out that the stock may only trade 500 shares or fewer every 5 minutes.

Good luck trying not to bid up the price if you want to scoop up those 10k shares right away.

Reason -7 VWAP Can Help Beat High-Frequency Algorithms

They are watching you - when we say they; we mean the high-frequency trading algorithms. Have you ever wondered why the liquidity levels in the stock market have gone up over the last few years?

The high-frequency algorithms can act as little angels when liquidity is low, but these angels can turn into devils as the attempt to bid up the price of a stock by placing fake orders only to cancel them right away.

If you are emotionally following the tape, you may start executing market orders because you are worried the price will run away from you.

This is where the VWAP can come into play. Instead of focusing on the level 2, you can place limit orders at the VWAP level to slowly accumulate your shares without chasing these phantom orders.

Chapter-9 Bonus Content: Low Volatility Stocks and VWAP

From my personal experience with the VWAP, I would scan for high volatile stocks and then apply the VWAP to the chart.

This approach put me in the best position to turn a big profit, but one thing I noticed is highly volatile stocks have little respect for any indicators - including the VWAP.

Two of the chart examples just mentioned are of Microsoft and Apple. These are two widely popular but not very volatile stocks.

Hard Break of VWAP

At first glance, you are likely thinking what's the big deal Al? RIOT blockchain did exactly what we expect stocks do when interacting with the VWAP.

In the morning the stock broke out to new highs and then pulled back to the VWAP. This pullback to the VWAP would have been a likely opportunity to get long the stock for a rebound trade.

This lack of a bounce produced a violent selloff from $7.70 to $7.20. This represented a sell-off of almost 7% in 40 minutes.

Do you think you would have what it takes to sit through a 7% beat down?

Only you can answer this question.

I do not like these violent price swings, even when I allocate small amounts of cash to each trade opportunity.

Failed at Test Level

In the next example, MBI had an explosive move up through the VWAP indicator. The stock then came right back down to earth in a matter of 4 candlesticks.

When I say 4 candlesticks, I mean literally a 10% down move in 20 minutes. You can see MBI did not recover to the VWAP level even as time pushed beyond 12 noon.

Again, are you mentally prepared for this level of volatility in your trading?

Chapter-10 VWAP and Futures Contracts

Building upon the concept of securities with more predictable volatility, I wanted to explore how the VWAP performs with the S&P E-mini futures contract.

For those of you that trade the S&P E-mini, you know all too well the contract moves in a familiar pattern.

S&P VWAP Retest

The dramatic selloff in February felt extreme after the low volatility the S&P had experienced over the prior 5 months.

Then the selloff began and for VWAP traders, it was clear the 2,570 level would provide significant volume and price support for the S&P 500 E-mini contract.

As you can see, the VWAP does not perform magic. However, the VWAP clearly did an awesome job of identifying where the bulls were likely to regain control.

S&P VWAP Retest #2

The S&P rallied more than 10% from the lows.

What do you think happened when the S&P 500 E-mini took another breather?

That's right, the futures contract ran right back down to the VWAP for support. The VWAP provided support over the last few tests; however, more tests can weaken the resolve of the bulls.

Time will tell if support will hold.

Chapter-11 VWAP Futures Case Study

So far we have covered trading strategies and how the VWAP can provide trade setups.

Now, let's discuss a case study to highlight how price interacts with the VWAP to help formulate a trading strategy.

Many traders will have their own hypothesis in place and force that hypotheses on the market.

Our approach is to observe the market's behavior and apply rules that can construct a system for trading.

Methodology

1. We analyzed the S&P 500 E-mini contract for this case study. We did this because the E-mini has high volume, tight spreads and consistent price movement. This way we would have an increased likelihood of a repeatable pattern in the contract.
2. Used the 5-minute time frame to increase the number of trade signals
3. Observed price action from 1/1/2018 - 1/31/2018
4. Track price movement once spread between VWAP and S&P 500 E-mini reached .4% or greater
5. Noted where counter price move ended to calculate potential gains

I hope that was clear as mud.

Take a look at the below table of the observations.

Date	E-mini Value	VWAP	Spread (VWAP to Price)	Percentage Spread Between Price and VWAP	Peak/Low	%Gain
1/5/2018	2747.75	2735.22	12.53	0.46%	2736.5	0.41%
1/10/2018	2737.25	2752.95	15.7	0.57%	2746.75	0.35%
1/12/2018	2776.75	2762.66	14.09	0.51%	2766.75	0.36%
1/14/2018	2797.5	2782.61	14.89	0.53%	2790.75	0.24%
1/16/2018	2769.25	2793.93	24.68	0.89%	2784.5	0.55%
1/17/2018	2809.5	2792.15	17.35	0.62%	2800.25	0.33%
1/23/2018	2842	2825.09	16.91	0.60%	2828.75	0.47%
1/24/2018	2825.5	2841.96	16.46	0.58%	2841.5	0.57%
1/25/2018	2853.75	2841.21	12.54	0.44%	2833.75	0.70%
1/28/2018	2878.5	2861.36	17.14	0.60%	2864	0.50%

TradingSim
#1 MARKET REPLAY PLATFORM

Let's unpack the data in this table further.

1. **Date**
   captures the time when the spread between the Price and VWAP was greater than .4%

2. **E-mini value**
   either the low or high point reached once the spread between price and VWAP hits .4%

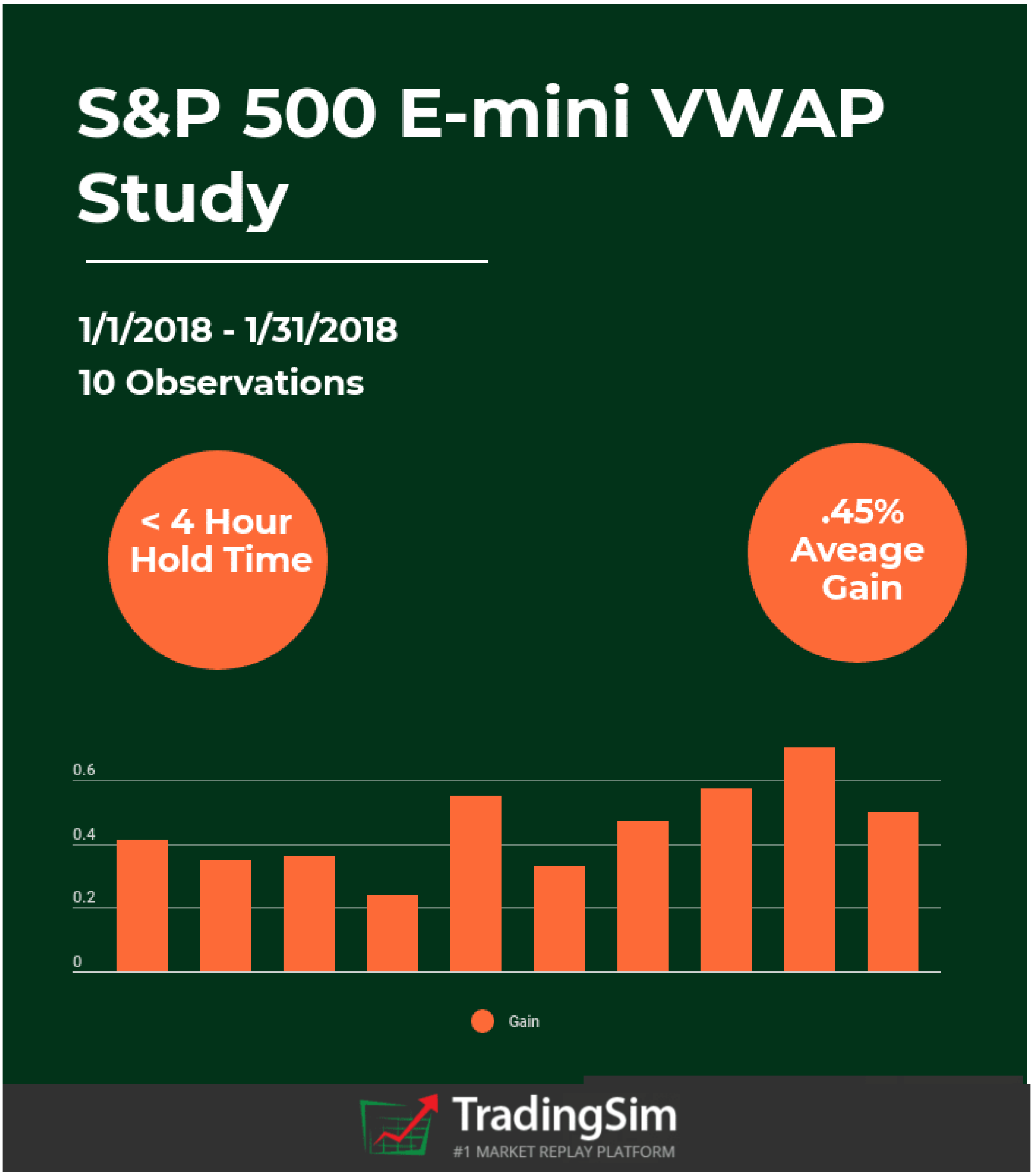
3. **VWAP**
   the value of the VWAP when the low or high is registered after the spread between price and VWAP hits .4%

4. **Spread**
   absolute value of the difference between VWAP and Price

5. **Percentage Spread**
   percentage value of the difference between the VWAP and Price

6. **Peak/Low**
   peak high point or low value of swing low

7. **%Gain**
   represents the move from the high or low pivot point



When trading this strategy remember to account for slippage as you will not get the highs and lows for entry/exit.

I think the point of the study is to illustrate as the S&P pulls away from the VWAP, at some point it has a sharp correction back to the indicator.

Chapter-12 VWAP and Bitcoin

Bitcoin is the quintessential example of a futures contract with high volatility.

VWAP and Bitcoin

Notice how the volume on the thirty-minute chart is somewhat thin.

Next, observe how Bitcoin leaps above and below the VWAP with ease.

Not only does Bitcoin penetrate the VWAP, the cryptocurrency then begins to trend quite nicely. Bitcoin's trading behavior around the VWAP reinforces my earlier point that the higher the volatility the greater the disregard of the VWAP.

For me, these sort of price swings are beyond my level of self-control.

Conclusion

VWAP Conclusion

Once you apply the VWAP to your day trading, you will soon realize that it is like any other indicator. There are some stocks and markets where it will nail entries just right and others it will appear worthless.

If you use the VWAP indicator in combination with price action or any other technical trading strategy, it can simplify your decision-making process to a certain extent.

For example, when trading large quantities of shares, using the VWAP can ensure you are paying a fair price.

Just remember, the VWAP will not cook your dinner and walk your dog. You need to make sound trade decisions on what the market is showing you at a particular point in time.

If you have questions about the VWAP or want to discuss your experiences, please share in the comments section below.

First Hour of Trading

Assuming you have either started day trading or are looking to get into the game, I am going to shock you in this article. What I will cover would have saved me 20 months of headaches if someone had told me day one.

Recent studies have shown the majority of trading activity occurs in the first and last hour of trading. Let me make this easy for you, only focus on the first hour and watch how simple it all becomes.

The first hour of trading provides the liquidity you need to get in an and out of the market.

Chapter-1 Why First Hour Trading

On average the market only trends all day less than 20% of the time.

Most new day traders think that the market is just this endless machine that moves up and down all day. In reality, the market is boring.

The one time of day which consistently delivers on sharp moves with volume is the morning. Assuming you are doing this for a living you will need some serious cash. Day trading isn't something you should undertake with your lunch money.

If you were trading with a $100,000 per trade how much volume do you think your stock needs? If you are reading this article the first response from you should have been what's the price of the stock.

Assuming you were already thinking that, you need tens of thousands of shares trading hands every 5 minutes. Reason being, you need enough volume to enter the trade, but also enough that you can potentially turn around in a matter of minutes and close out the same trade you just put on.

Let's Get more Granular When We Say the First Hour of Trading

First Hour of Trading

THE FIRST 5 MINUTES

Now that the market has opened. the first noticeable increment of time is the first five minutes. I have no study to back this one up, but from my own experience and talking with other day traders the 5-minute chart is by far the most popular time frame.

Within the first 5-minutes you will see a number of spikes in both price and volume as stocks gap up or down from the previous day's close. This will often be driven by some sort of earnings announcement or pre-market news. This first five minutes is arguably the most volatile time of day.

There is no defined range and odds are the previous day's range has been eclipsed by the gap. With no clear boundaries for where to go, to short or buy after the first 5 minutes, in my opinion, is nothing more than a gambler's paradise. If you are serious about your trading career stay away from placing any trades during the first 5 minutes.

Below is a chart of NII Holdings (NIHD) which is one of the more volatile stocks on the Nasdaq. NIHD gapped up on the open to a high of 9.05, only to close at 8.73 5 minutes later. How do you think NIHD trended over the next hour?

First 5-minute bar

Let me not keep you waiting too long. All of you advanced day traders will say that the stock continued lower because the stock had such an ugly candlestick on the first 5 minutes. Well, guess what, in this instance, you would be correct.

5-minute reversal bar

Remember I am a day trader, so I already know what you are thinking. You are probably saying to yourself, well I can place a buy order above the first 5-minute candlestick and a sell short order below the low of the candlestick. You may even take it one step further and place your stop order neatly behind the high/low of the first candlestick to box in your risk.

Sounds simple enough right? Wrong!

This is nothing more than saying to yourself that you are going to gamble your money within a defined framework. While using simple strategies increase your likelihood of consistent execution, this approach is too unpredictable.

9:30 - 9:50

The 9:30 - 9:50 am time segment will look odd to you because it is. Some traders will wait out the first half an hour and for a clearly defined range to setup. I have noticed if a stock is going to head fake you, it will often do it at the 10 am hour.

Another reason I like 9:50 as the completion of my high low range is it allows you to enter the market before the 15-minute traders second candlestick prints and before the 30-minute traders have their first candlestick print.

After the completion of the 9:30 - 9:50 range you will want to identify the high and low values for the morning. The importance of identifying the high and low range of the morning provides you clear price points that if a stock exceeds these boundaries you can use this as an opportunity to go in the direction of the primary trend which would be trading the breakout.

Or you can go against the primary trend when these boundaries are reached with an expectation of a sharp reversal.

Below is another example of the stock NIHD after it sets the high and low range for the first 20-minutes.

High Low Range

At this point, you have one of two options. Your first option is to buy the break of the 9:50 candlestick and go in the direction of the primary trend. I believe when you see stocks b-line like this for the first 20 or 30 minutes, the odds of the stocks continuing in that fashion are slim to none. I personally like a stock bounce around a bit and build cause before going after the high or low range.

Your second option is to short the stock with the expectation NIHD will reverse around the 10 am time block. I am not a fan because you are just hoping the stock will reverse, but there is no real justification.

So, looking at NIHD what would you do at this point? The correct answer is you should stay in cash.

Range Holds

As you can see in the above chart, NIHD floated sideways for the remainder of the first hour. Do you see how sizing up the trade properly would have allowed you to miss all this nonsense?

9:50 TO 10:10

The 9:50 to 10:10 time slot is where you will want to enter your trade based on a break or test of the highs and lows from the first 20 minutes. Now that we have already had our head fake example earlier in the article, let's focus on one that follows the happy path.

Break Down

This is a clean example from Newmont Mining on 5/7/2013.

Notice how the stock was able to shoot down and build steam as the stock moved lower. In theory, waiting for a breakout after an inside bar or a tight range will often lead to consistent profits. The key thing to remember is 9:50 to 10:10 is the only window for opening new trades.

If you place a trade at let's say 10:15 and you are trading the first hour, it only provides you 15 minutes to close your position. Unless you are trading ticks, which I think is a sure way to make your broker rich, you simply don't have enough time for the market to move in your desired direction.

10:10 - 10:30

The last twenty minutes is where you let the stock move in your favor. This doesn't sound like a lot of time, but if you step back for a second this represents a potential of 40 minutes from the time you first entered the trade at 9:50.

Now there is no law against you holding a stock beyond 10:30, for me personally I allow my positions to go until 11:00 am before I look to unwind. The key point is you get out of the mindset of letting your profits run. I honestly get visibly frustrated when I hear people giving this advice to new traders.

In today's world, there are way too many automated systems and retail investors all clamoring over pennies, stocks no longer move in a linear fashion where you can sit back and place your trades on cruise control. The amount of head fakes and erratic behavior is just over the top.

For me, a clear profit target is the best way to ensure I take money out of the market consistently. If you want to read more on this topic you can check out any of the following articles: Day Trading Targets and Trading Plan - Key to a Successful Trading Business. Each of these articles will clearly break down the importance of getting in a rhythm of taking profits.

The last 20 minutes of the first hour is not the time to hang out and see how things go. This is the time where you need to be on the lookout for closing your position and you must have some idea of where you want to close the position.

I personally like to have a set percentage target that I'm shooting for while others may adjust this value based on the volatility of the stock. It really doesn't matter over the long run because you will adapt your trading strategy to your performance. The key thing is making sure you are coming from a place of wanting to pull profits from the market.

Why 11:00 AM is a Bad Time

11 AM is a Bad Time

Most of you reading this article will say to yourselves, this makes sense. I should trade during the first hour when I have the greatest opportunity to make a profit since there is the greatest number of participants trading.

Since I trade, I know there are some of you reading this thinking, "I can make money all day". This is a true statement. You can make money all day. The only problem is the majority of people do not.

You will see that around 11:00 am the volume just dries up in the market. This is because the institutional investors and hedge funds realize that there is far more work and risk to be had during the middle of the day than potential profits. The resulting price action when the true stock operators are away from their desk is basically a lot of sideways action.

Stocks will breakout only to quickly roll over. Stocks will begin to move in one direction with nominal volume for no apparent reason. Lastly, while there may be price movements, they are so small that after commissions and time spent fighting the market it's just not worth the headache.

Oh, how I wish I had come across an article like this back in the summer of 2007. I may still have a few strands of hair on my head.

Chapter-2 Just Settle Down

Quality over Quantity

Think about it, in any line of work, you want to follow the most successful people. Don't try to fight the market so you can tell your family members and friends you were trading all day.

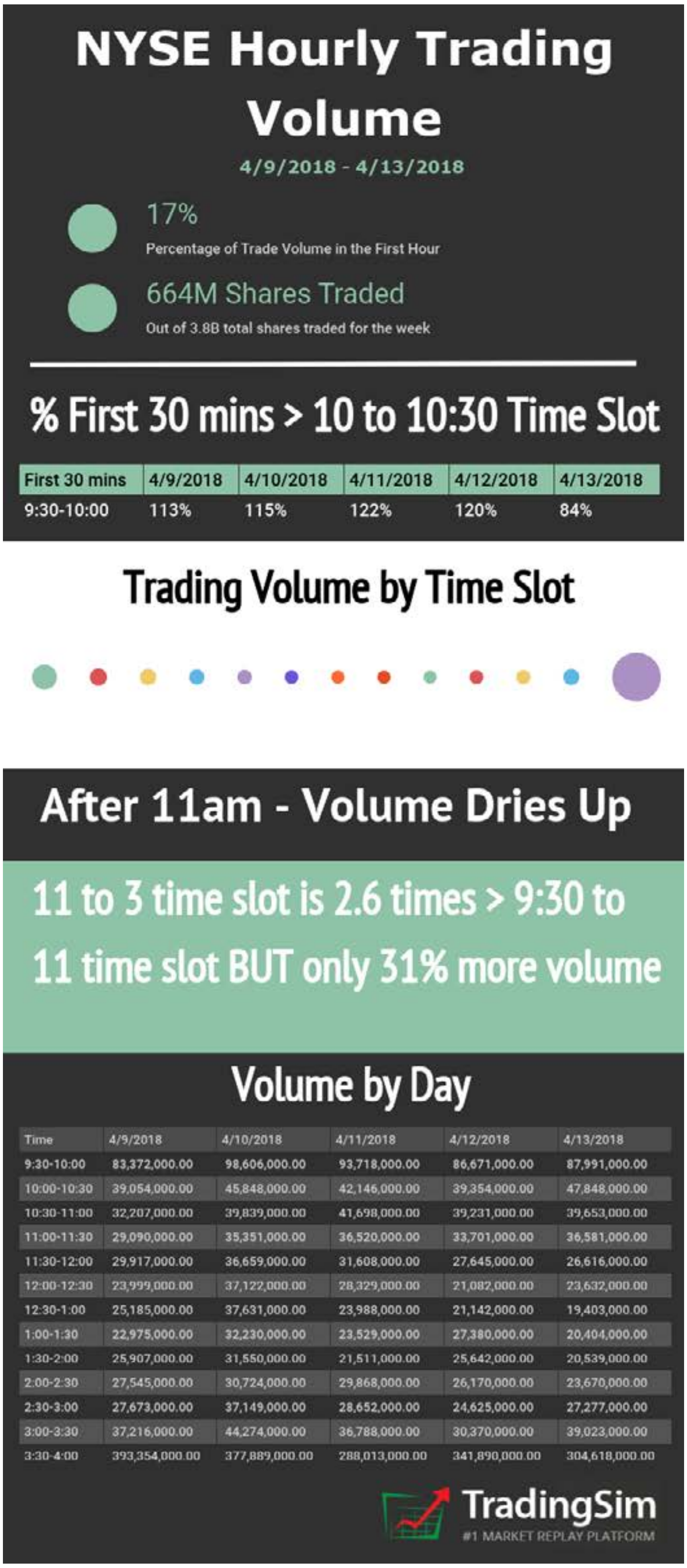
You are in the business of making money, not working long hours. If you think my experience isn't enough reason to caution you, Thomson Reuters did a study and have concluded that 58% of all volume on the NYSE occurs during the first and last hour of trading.

So, we at Tradingsim wanted to see if that study would still hold up years later. We pulled trade/volume data for the NYSE for one week to analyze the numbers.

nyse hourly trading volume

What did our mini-case study show us?

The first thirty minutes is on average twice the size of the 10 am to 10:30 am time slot. We did not perform a volatility test on these times, but you can assume where there is that much smoke, there is a fire.



First 30 mins	4/9/2018	4/10/2018	4/11/2018	4/12/2018	4/13/2018
9:30-10:00	113%	115%	122%	120%	84%

Time	4/9/2018	4/10/2018	4/11/2018	4/12/2018	4/13/2018
9:30-10:00	83,372,000.00	98,606,000.00	93,718,000.00	86,671,000.00	87,991,000.00
10:00-10:30	39,054,000.00	45,848,000.00	42,146,000.00	39,354,000.00	47,848,000.00
10:30-11:00	32,207,000.00	39,839,000.00	41,698,000.00	39,231,000.00	39,653,000.00
11:00-11:30	29,090,000.00	35,351,000.00	36,520,000.00	33,701,000.00	36,581,000.00
11:30-12:00	29,917,000.00	36,659,000.00	31,608,000.00	27,645,000.00	26,616,000.00
12:00-12:30	23,999,000.00	37,122,000.00	28,329,000.00	21,082,000.00	23,632,000.00
12:30-1:00	25,185,000.00	37,631,000.00	23,988,000.00	21,142,000.00	19,403,000.00
1:00-1:30	22,975,000.00	32,230,000.00	23,529,000.00	27,380,000.00	20,404,000.00
1:30-2:00	25,907,000.00	31,550,000.00	21,511,000.00	25,642,000.00	20,539,000.00
2:00-2:30	27,545,000.00	30,724,000.00	29,868,000.00	26,170,000.00	23,670,000.00
2:30-3:00	27,673,000.00	37,149,000.00	28,652,000.00	24,625,000.00	27,277,000.00
3:00-3:30	37,216,000.00	44,274,000.00	36,788,000.00	30,370,000.00	39,023,000.00
3:30-4:00	393,354,000.00	377,889,000.00	288,013,000.00	341,890,000.00	304,618,000.00

The trading volume by time slot visual was inspired by our solar system and it's clear the first 30 minutes and last 30 minutes are Queen of the Jungle! The one thing that was quite alarming is that the last half an hour is just monstrous.

I'm likely going to write an article on this phenomenon because at the end of day volume keeps increasing over recent years.

To reinforce my point of not trading after 11, we compared volume from 9:30 to 11 and 11 to 3.

The simple calculation is 240 minutes/90 minutes, which tells us the midday time slot is 2.6 times greater than the morning trading session.

However, when we reviewed the volume numbers for the week, the midday session was only 31% greater in terms of volume. This my folks is evidence that if you are trading during the middle of the day, you will likely give yourself a major headache.

Reason being, you will need to find a needle in a haystack in terms of locating the trades that are going to move in such a dull market environment.

If you get anything from this graphic, think of all the fun you can have from 11 am to 3 pm.

Walk your dog, hit the gym, get some beauty rest.

Just do your best to stay away from your computer.

If you cannot resist the urge for whatever reason, at least hold off until 3:00. If you are day trading this presents another dilemma as you should be exiting your trades at 4 pm. This means you have less than one hour to enter and exit your trade.

I do like the idea of having a set time to close the position, but you must yourself if you are really going to stay true to this rule.

If there is any chance you could start holding trades overnight as a day trader, then focus on the first 1:30 hours of trading. There is more than enough action.

Chapter-3 How Much Volatility is Enough?

While the market open presents the greatest number of trade opportunities, you also need to determine the level of volatility you are willing to trade on the open.

While volatility is required to make money, profitable traders have a limit of what they are willing to trade. It's not to say you can't make money trading penny stocks, it just requires enormous discipline and money management to avoid blowup trades.

Me personally, I try to avoid stocks that are printing a lot of 2% and 3% candlesticks. Reason being, the stock will likely trip my stop loss order before I am able to realize my profit target. Also, there is a greater chance I will end up in a blowup trade if things go against me swiftly.

Let's review a few examples where volatility is just too much.

High Volatility 1

High Volatility 2

You can trade volatile stocks, but you need to reduce the amount you invest per trade to limit your risk. If a stock is three times as volatile of your average trades, only use a third of your normal size.

The reason I am touching upon these ridiculously volatile stocks is that they are available for you to trade. You need the discipline to avoid chasing the big win because at some point it will result in the blow-up trade.

Chapter-4 Pre-Market Trading

Now, I don't recommend you trade in the pre-market due to the low volatility and wide spreads. However, pre-market data can provide insights into the trading range of a security.

Why is this important?

Well if you are buying a morning breakout, the pre-market high can be your first target for the price move.

Conversely, if a key pre-market support level is breached, you can anticipate the pending move lower. Most platforms provide the ability to include pre-market data on the chart if you look at your chart property settings.

Buy the Pre-Market Breakout

This strategy has been talked about on the Tradingsim blog quite a bit, but essentially you are looking for low float stocks that have the potential to make big moves.

You can also trade big-name stocks, but you just need to be prepared to accept smaller gains.

WAIT FOR THE MORNING PULLBACK

The other method you can use for trading the morning pre-market data is to wait for the first pullback. This obvious advantage to this approach is that you can lower your risk by purchasing the stock at a lower price.

Secondly, you have a clear exit target with the most recent high.

Now what you will miss by excluding the pre-market data are the trend lines and moving averages that provide support for the pullback.

Pre-market breakdown

You can in the above chart the clear run-up in the pre-market. Then you can see how the stock broke down below the morning lows only to plummet lower.

Now let's take a look at that same chart without pre-market data.

Breakdown without pre-market data

Now you could say you would just short sell the break of the low on the 1-minute chart, but it's now where near as convincing without the pre-market data.

You are unable to see the clear range and hence would be operating on a hunch rather than clear patterns in the chart.

Chapter-5 Where Things Go Wrong in the First Hour of Trading

Let's talk about where things can go wrong trading in the morning. While I agree there is consistent money to be made, the reality is that morning trading is not for everyone.

#1 Things Can Get Out of Hand Quickly

One thing that morning does not afford you is the ability to ignore stops. Think about the chart of the breakdown above. GBR dropped from $12 dollars down to a low of $6.15 by 9:43 am.

This represents a total percentage drop of ~49% in 13 minutes! Take that in for a second.

Now of course if you had placed your stop right below the low of the pre-market range, you would have exited with a 10% loss. Now that's still huge but is nothing in comparison to 50%.

#2 Even When You Are Right You Have to be Fast

If you are trading the morning movers you will need to use 1-minute, 2-minute or 3-minute charts.

The action is so fast 5-minute or 15-minute charts will have you missing the action. Therefore, as the stock is moving in your desired direction, take some money off the table.

#3 Do Not Worry About Guessing Tops and Bottoms

You will inevitably come to a point in your trading career where you will want to nail tops and bottoms. The reality is you will be chasing a ghost.

The morning more than any other time of day is really difficult to call these turning points in the market.

Reason being, again the action is so fast. So, the best thing you can do is focus on making sure your profit versus what you are risking is always greater.

This way over a large enough sample set, you will beat the market.

But I strongly caution you against reviewing old trades and only focusing on the biggest winners. This will create a sense of greed inside of you. A better approach is to track the profits and losses on each trade, so you can begin to develop a sense of the averages you can hope to make based on the volatility of the security you are trading.

#4 Stops Can Still Trigger Big Losses

If you are trading low float stocks, you need to be prepared for the possibility of 6% to 10% losses. A classic approach you can use is to place your stops below the breakout candle and even this at times can present mid to high single digit percentage losses.

I'm not saying this to scare you away from low float, but you should be realistic in terms of how much money you use on each low float stock trade.

In Summary

Hopefully, you have found this article useful and it has provided some additional insight into first-hour trading and some basic approaches you can take in your day trading strategies to capitalize on the increased volume in the morning session.

For all you history buffs, check out this article which touches upon the history of the market hours. Can you believe back in the 1800's, there was no set closing time!

Now take a minute and visit our site, Tradingsim and check out how you can use our day trading simulator to trade the first hour. You can toggle between regular session hours and pre-market to see all of the hidden levels to learn which patterns work best for your trading style.

Pre-Market Trading
How to Identify the Best Setups

You can check across the web and pretty much any source related to day trading will tell you that premarket trading is a critical aspect of successful trading.

But, how do you know what to look for when it comes to price action? Should you actually place trades during the premarket? Should you give the same amount of credence to pre-market trading equally across every stock?

In this post, I will cover what I do in terms of premarket trading and how I use the early morning activity to help determine my trading plan for the day.

Identifying The Setups

#1 Avoid Low Float Stocks

I know this is the direction you will hear from many trading experts on the web. From my experience trading, low float stocks are virtually impossible to trade using pure judgment. The moves are so sharp that it takes a unique risk profile to consistently make the right decisions and walk away from the markets with profits on a daily basis.

If you are unable to find float information, a simple way is to avoid penny stocks. If we are to speak in general terms, penny stocks often times have low float due to the lack of investment dollars

#2 Only Stocks 10 Bucks and Higher

So, when scanning for plays you need to first filter out all of the stocks below to dollars. You will notice right away that the universe of possible plays is much smaller, but that's ok. We are looking for quality over quantity.

#3 Stock is up/down 4% to 15%

This is the sweet spot for high float stocks that are priced accordingly. Too low of a move and you will likely waste time sitting in a position that has a low probability of turning into a big winner.

Trade something over 15% and odds are the bulk of the move has already occurred and the only thing left is either sideways action or a pullback from the peak points.

#4 Volume of a Few Hundred Thousand

There will be times that you see a stock up huge, but only on 15,000 shares. This will give the illusion that there is far more upside, but with such low volume, it only takes a reasonably backed trader to place a sell order to squash your morning paper profits.

So, you need to look at how much the stock normally trades on a daily basis. But at a minimum, you should look for 100k shares. This, of course, is not enough for a stock like Apple but for a stock that trades on average 500k shares daily, a 100k shares is good premarket movement.

#5 Universe of Possible Plays

After you filter the early movers based on these criteria, you will have a list that looks similar to something like the below graphic.

%Chg	Last	Symb	Company
~~52.03%~~	~~9.00~~	~~FOMX~~	~~Foamix Pharmaceuti~~
~~15.62%~~	~~2.96~~	~~ALQA~~	~~Alliqua Biomedical~~
15.39%	118.55	GLPG	Galapagos NV
8.29%	25.34	HEAR	Turtle Beach Corpo
~~6.91%~~	~~2.97~~	~~FRSX~~	~~Foresight Autonomo~~
5.41%	25.72	CDLX	Cardlytics Inc.
4.81%	100.40	TLRY	Tilray Inc.
4.46%	45.20	CCE	Coca-cola European
~~4.42%~~	~~3.31~~	~~NOG~~	~~Northern Oil and G~~
~~4.05%~~	~~4.75~~	~~PACB~~	~~Pacific Bioscience~~
4.02%	21.50	BHC	Bausch Health Comp
3.46%	74.73	GILD	Gilead Sciences In
~~2.96%~~	~~4.18~~	~~CHK~~	~~Chesapeake Energy~~
~~2.90%~~	~~17.04~~	~~SONO~~	~~Sonos Inc.~~
~~2.52%~~	~~2.85~~	~~BTE~~	~~Baytex Energy Corp~~

Filtered List of Stocks

#6 Trade Clean Charts

Next up, you want to find a stock with a clean chart. What is the definition of a clean chart? You want to see setups that have a nice basing pattern and not running up into a parabolic peak.

Clean Chart Example

Horizontal Base Building

Now the opposite of a clean chart is one that spikes right before the open or starts to trend against the primary trend in a slow and methodical fashion.

Ugly Pre-Market Trading Action

Not a Clean Chart

#7 Identify Highs and Lows of the Pre-Market Trading Session

The most important things to capture during pre-market trading is the high and lows from the session. While pre-market trading is on light volume, these key price points will act as magnets during the regular session.

This is for a number of reasons. First traders that placed, for example, short trades, while often place their stops right above the pre-market high. Secondly, breakout traders will at times ignore the days' high and focus on the pre-market high as the place to enter the trade.

Pre-Market High - Low

#8 Pulling the Trigger

At this point, you are ready to pull the trigger. You have filtered the stocks down to a manageable list and have identified the high and low points from early trading.

So, what do you do next?

Proper Risk to Reward Ratio

Find the stocks with the best risk to reward ratios. On the web, you will see 3 to 1 as the common ratio but remember the market will not always make itself available to this degree.

Therefore, if you can find setups with 2 to 1 or even 1.5 to 1, feel free to pull the trigger. The key point is that you are placing odds in your favor. So, once you are able to trade with a higher degree of accuracy, by also having a greater reward on each trade than what you are risking, you are sure to come out on top.

Place Your Order Slightly Beyond the Pre-market Highs and Lows

You should place y0ur stops slightly beyond the pre-market highs and lows. At times, you will see nasty head fakes where a stock will tip over the high only to retreat lower.

I see this mostly with low float stocks that trap people in subpar stocks, thus completing the dump action and creating tons of bag holders.

This can still happen in high float stocks, but the repercussions of being wrong are not as steep. Again, a way to manage this risk is to place your orders slightly beyond the pre-market levels.

Order Type

For me, I only place stop limit orders. This allows me to enter the trade beyond the pre-market high but place boundaries on how high I am willing to enter the trade.

This allows me to define my limits in order to adhere to my risk to reward requirements on the trade.

Example of Putting it All Together

So, far we have covered how to filter stocks down in the pre-market, but let's now go through a play-by=play of how you would do this on a real trading day.

Filter Down the List

First, we start off by looking at the top gainers for the day. You can accomplish this by looking at the market movers widget in Tradingsim.

Sym	Price	G/L
ORIG	31.00	+3.92 (+14.48%)
CRON	10.78	+0.90 (+9.11%)
TLRY	70.51	+5.31 (+8.14%)
GERN	6.15	+0.42 (+7.33%)
ATAI	2.33	+0.16 (+7.31%)
QTNA	19.35	+1.08 (+5.91%)
RIGL	3.60	+0.19 (+5.57%)
RRD	5.30	+0.24 (+4.74%)
MESA	14.42	+0.63 (+4.57%)
ZUMZ	32.55	+1.40 (+4.49%)
SHLD	1.40	+0.06 (+4.47%)
RIOT	6.54	+0.24 (+3.88%)
LE	26.65	+0.95 (+3.70%)
LTRX	5.50	+0.18 (+3.42%)
OILU	57.86	+1.77 (+3.16%)
ECYT	20.29	+0.57 (+2.90%)
PXLW	5.67	+0.16 (+2.88%)
CRSP	58.18	+1.51 (+2.67%)

Top Pre-Market Movers

Next, we filter down these stocks based on volume, float, spreads, percentage gain and price. This then takes a large list like the one above and now makes it manageable.

Sym	Price	G/L
~~ORIG~~	~~31.00~~	~~+3.92 (+14.48%)~~
CRON	10.78	+0.90 (+9.11%)
~~TLRY~~	~~70.51~~	~~+5.31 (+8.14%)~~
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ZUMZ	32.55	+1.40 (+4.49%)
~~SHLD~~	~~1.40~~	~~+0.06 (+4.47%)~~
~~RIOT~~	~~6.54~~	~~+0.24 (+3.88%)~~
~~LE~~	~~26.65~~	~~+0.95 (+3.70%)~~

Filtered Stock List

Identify Clean Chart

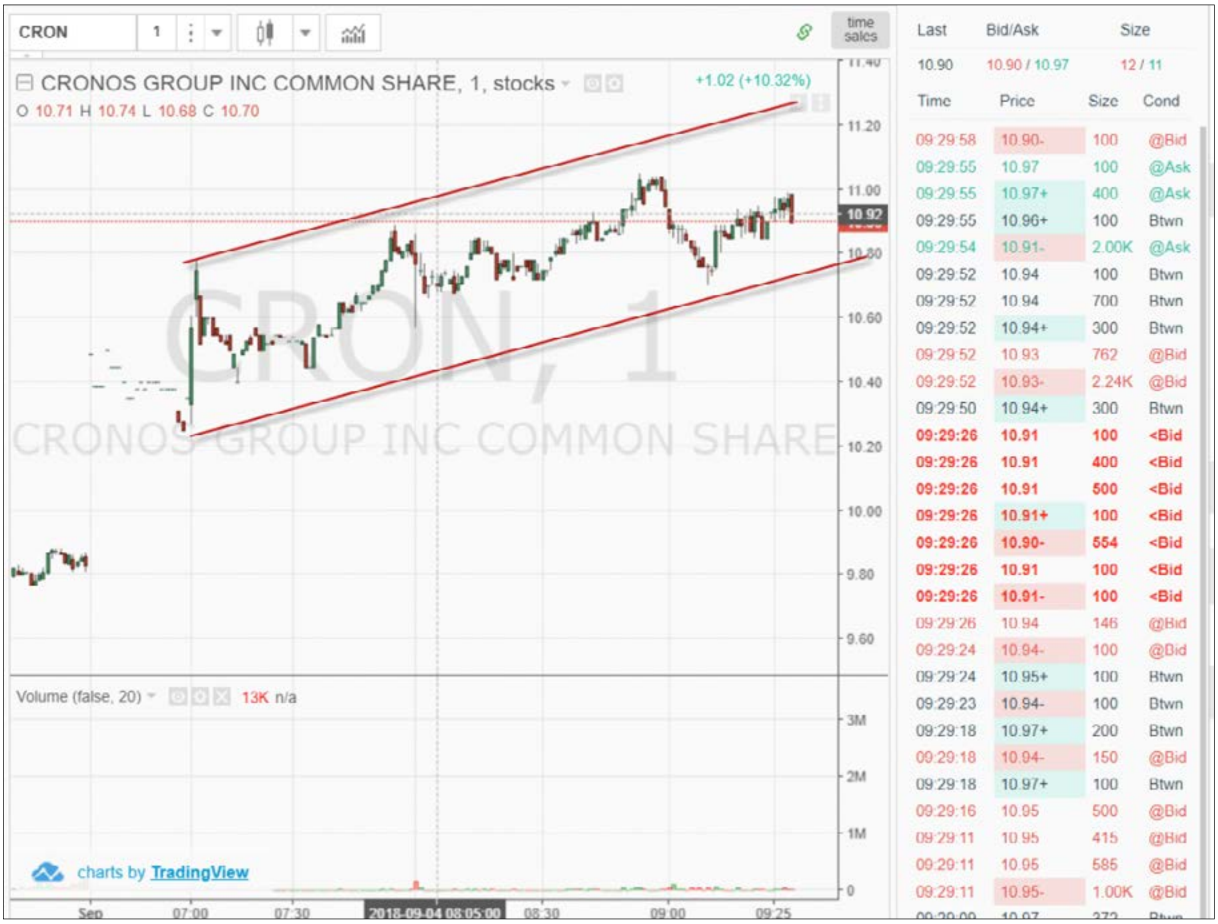
Next, we want to find the stock with the cleanest chart.

First up is ZUMZ.

ZUMZ Pre-Market Setup

ZUMZ simply does not have enough pre-market volume trades to identify a pattern.

Next up is CRON.



CRON had great volume and price structure. However, the stock was running in an up channel and any breakout would just run the stock up to resistance from the morning.

This actually happened which you can see below.

For those of you that wonder why a stock reverses right after gapping up on the open, you only need to look at the support and resistance lines formed in the pre-market to get your answer.

With only one stock left, MESA, let's see if things get better.

MESA had no volume and no clear chart pattern.

Therefore, on this particular day, there were no clear pre-market setups to trade on the open.

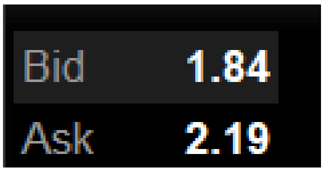
Now, this does not mean there were no good setups for the trading day. It just means there were no strong patterns which developed prior to 9:30 am.

This is a critical point for you to remember. There are days where there are no setups early in the morning. You have to become comfortable with this fact and demonstrate patience before placing trades.

Why I Do Not Place Pre-Market Trades

I do not place trades during the pre-market for a host of reasons. Let me go a little deeper since that response was way to the point.

Huge Spreads



Large Spreads

First, the spreads during pre-market trading are too great. A stock with a normal spread of less than .25% could now have spreads of .75% and up. This makes it challenging to get my desired price.

Thin Volume

Light Volume

If a stock trades a few hundred thousand shares during the pre-market this is considered to be great. The only problem with this is that a stock can move against you without many participants.

For these two reasons, I do not place trades in the early morning.

Only Reason You Should Trade in the Pre-Market

The one caveat to trading in the pre-market is if for some reason you are holding a day trade overnight. In the morning, you can at times get spike moves, again on low volume which you can use to exit your position.

Two wongs in life normally don't make a right, but if you start to break your rules and hold trades overnight, closing the trade out is of critical importance.

In Summary

Finding good setups comes down to executing the same filters on a daily basis. Remember, just because you do not find a trade in the pre-market does not mean you won't find good setups during the day.

To learn more about Tradingsim and how you can scan the market for pre-market trades, please visit our homepage to learn about our latest offerings.