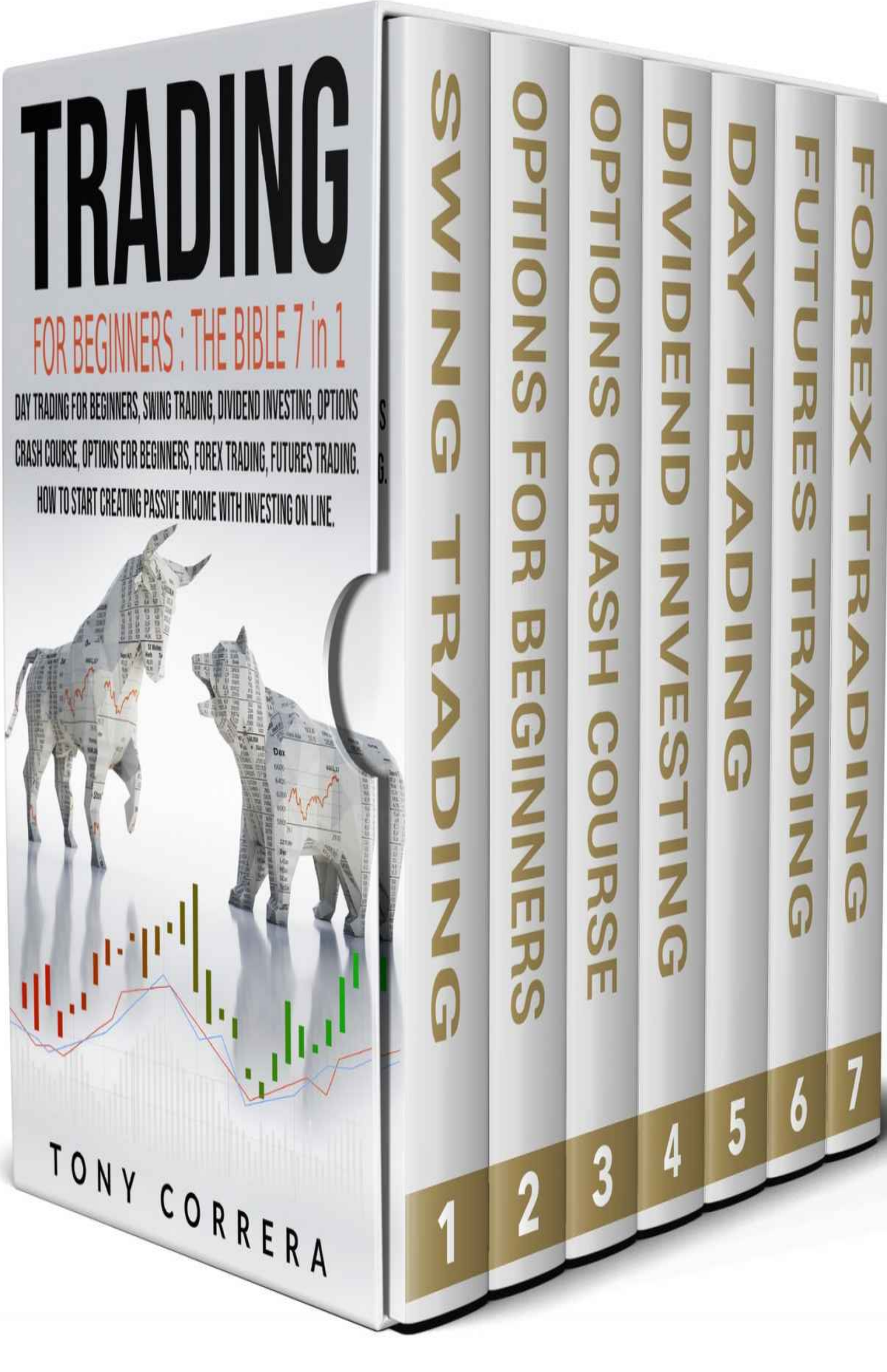

TRADING
FOR BEGINNERS : THE BIBLE 7 in 1
DAY TRADING FOR BEGINNERS, SWING TRADING, DIVIDEND INVESTING, OPTIONS CRASH COURSE, OPTIONS FOR BEGINNERS, FOREX TRADING, FUTURES TRADING.
HOW TO START CREATING PASSIVE INCOME WITH INVESTING ON LINE.
TONY CORRERA
SWING TRADING 1
OPTIONS FOR BEGINNERS 2
OPTIONS CRASH COURSE 3
DIVIDEND INVESTING 4
DAY TRADING 5
FUTURES TRADING 6
FOREX TRADING 7

Trading for beginners
The Bible 7 in 1:

Swing Trading, Options for beginners,Options Crash Course, Dividend Investing,Futures Trading,Day Trading for Beginners,Forex Trading.How to start creating Passive Income with Investing on line.

TONY CORRERA

Table of Contents

Book 1: Swing Trading

Book 2: Options Trading

Book 3: Options Trading Crash Course

Book 4: Dividend Investing

Book 5: Futures Trading for Beginners

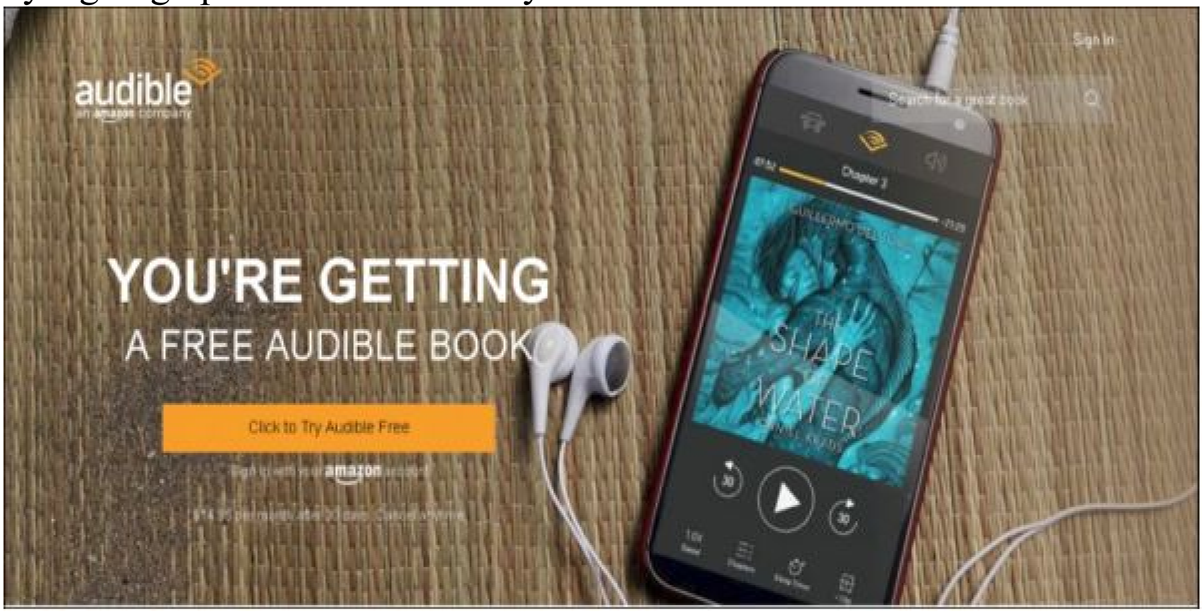
Swing Trading

A Guide for beginners in Options, Stock and Forex , Strategies with Technical Analysis, Chart Pattern and Money Management

Tony Correra

Download the Audio Book Version of This Book for FREE

If you love listening to audio books on-the-go, I have great news for you. You can download the audio book version of this book for **FREE** just by signing up for a **FREE** 30-day audible trial! See below for more details!



Audible Trial Benefits

As an audible customer, you will receive the below benefits with your 30-day free trial:

- .FREE audible book copy of this book
- .After the trial, you will get 1 credit each month to use on any audiobook
- .Your credits automatically roll over to the next month if you don't use them
- .Choose from Audible's 200,000 + titles
- .Listen anywhere with the Audible app across multiple devices
- .Make easy, no-hassle exchanges of any audiobook you don't love
- .Keep your audiobooks forever, even if you cancel your membership
- .And much more

Click the links below to get started!

For Audible US

For Audible UK

For Audible FR

For Audible DE

Introduction

Congratulations and thank you for downloading this book!

In this book we hope to introduce you to swing trading and give you the tools and background you need in order to get started on your own. Many readers might not know what swing trading is really about, so let's start by explaining the general concepts, which are actually quite simple.

Swing trading is a strategy that seeks to make money from short-term price movements. Rather than investing over the long term, or making quick moves in a single trading day, swing traders hold their trades for days or weeks at a time. At the most, a swing trader will hold their investments for a couple of months.

While there are specific techniques that have been developed for different financial markets, swing trading as a method is quite general. Swing traders can be found trading on every financial market, including stocks, options, and Forex among others.

Swing trading is about searching the market for opportunities. Rather than investing all of their capital in securities, they may spend days or weeks on the sidelines, waiting for the right moment to get in on a trade they are interested in. Swing traders can profit by going long – that is by investing in a security looking for the price to increase, or they can short, and earn profits from declining prices. In short swing trading is looking for the right trend in a security, whether its moving up, or moving down.

To succeed you need to know how to find the right times to get in and out of a trade. In order to find them, you will have to understand financial market charting, and recognize common patterns that happen when trends are about to take off or reverse. Swing traders also use the tools of technical analysis to detect shifts in the underlying trends of securities.

Swing trading is not for everyone, and it's not a get rich quick scheme. To succeed at swing trading, you are going to have to study and learn it as a craft, and pay close attention to the markets. People who would prefer simply investing their money and not thinking about it aren’t suitable for swing trading.

You can make large profits as a swing trader, with returns that beat the market by a large margin. But you aren’t going to make instant riches, in most cases. Of course there are some swing traders who will score a big win quickly, but most swing traders are going to have to methodically build their portfolio over time. But if you are dedicated and interested in being deeply involved with the financial markets, swing trading is definitely a strategy that can work, and it’s a lot safer than day trading.

Chapter 1: How Swing Trading Works

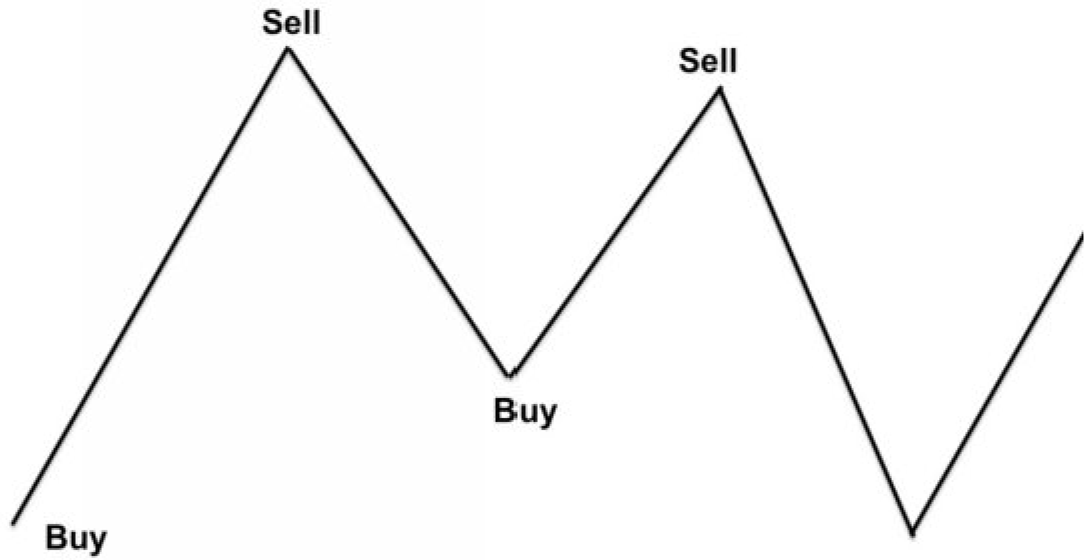
Swing trading is deceptively simple – you earn profits by going with the trends in the market. To do this, you study a given financial security and look for *support* and *resistance*. Support is the low pricing point below which the asset has not crossed. Resistance is the high pricing point, above which a break is not possible. Of course support and resistance are temporary pricing levels, and they are apt to change at any time. On the stock market, a bad earnings report can lead a stock to drop below its previous levels of support. On the other hand, a good earnings report or the release of a new product can cause prices to skyrocket. Part of your job as a swing trader is to keep up with the markets and market news, so you know when such opportunities might present themselves. We will talk about support and resistance in more detail later, when we discuss chart analysis.

Of course prices are moving up and down all the time, so you aren't always waiting for big news to break. There are opportunities to get in on trades all the time – if you know what to look for. Prices will move "sideways" for long time periods, before making a break to the upside or downside. Alternatively they can be "boxed in" between support and resistance. Even then there are opportunities to earn profits, although they won't be as large as when there are big movements. We will be teaching you what to look for later in the book.

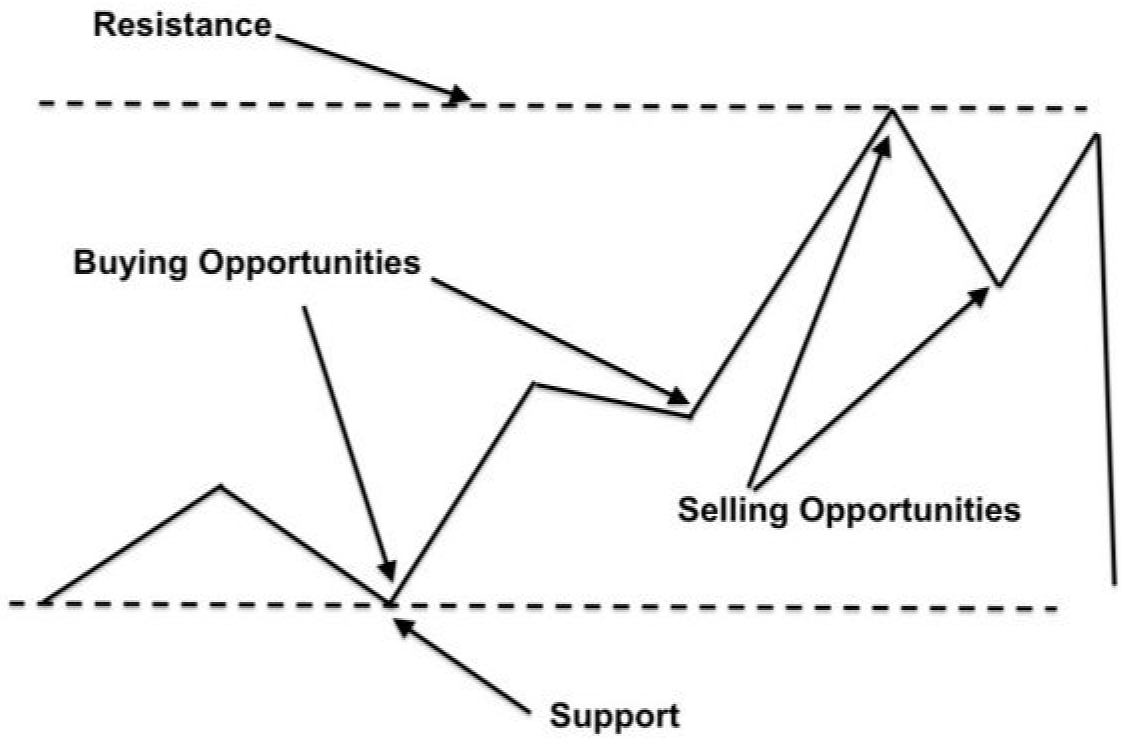
How to Make Profits from Swing Trading

To understand how you can profit from swing trading, it can be helpful to look at a couple of mock up charts. First let's take a look at the general idea. Asset prices fluctuate down all the time, and on different time scales. In its simplest form swing trading takes advantages in the swings up and down on the markets – you buy low and sell high.

Of course any investor can say they hope to buy low and sell high. The swing trader hopes to capitalize on a *swing*, or a single move in the asset price. Swing traders hope to earn profits from breakouts, when the asset price increases to a new level. Alternatively, you can short the asset if its experiencing a major decline. Swing traders can also earn smaller profits as the asset price bounces higher and lower about the median.



This graphic indicates price levels of support and resistance for some financial asset. Our goal in this chart is to look for an opportunity to buy the asset when the price is low, and then sell it when the price rises. There are many techniques a trader will use to estimate the right times to enter a position.



The dashed line at the bottom of the chart represents support. This is a price level that historical data have shown that as the price of the asset decreases, it will stop and reverse and enter into an increasing trend after it reaches the support point. So an asset that is trading at the support pricing level is one that a trader wants to invest in – if there are signals of an uptrend. There are other opportunities to get in on a trade as well at higher pricing levels. A trader will enter a position if there are signals that the asset price will continue increasing to the resistance level.

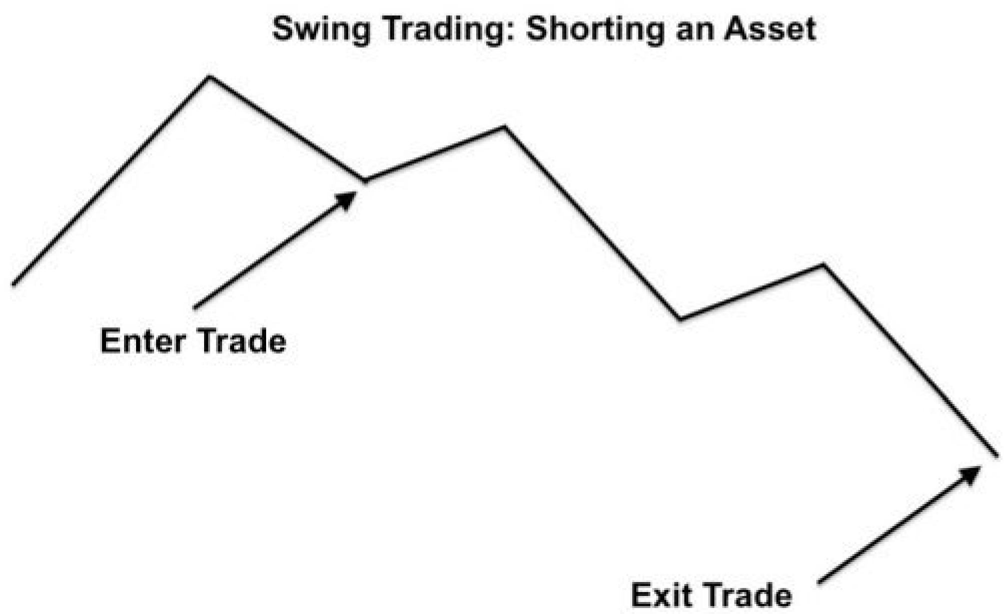
So, we say that a swing trader will buy at support. This is if you expect the asset price to increase. If you expect it to decrease, then you sell at resistance.

To make a profit, the trader needs to know when to exit a trade. The resistance level provides the best opportunity to do so. Profiting from your trades can take discipline, there is always a chance that the asset will break above the resistance level, and emotions make people anxious to take advantage of such situations. But waiting to long to exit a position can be costly, if the price drops rapidly back to the support level. It's important to understand that swing trading is not gambling. The trader uses technical analysis to determine the best prices at which to buy and sell, in order to profit from the trade. But the concept is pretty simple for increasing prices – identify levels of support and resistance and buy low when pricing is at or near the support level, and there are indications of an upward trend. Then you sell high at a pricing point that you determine to make profits, and exit the trade.

As you'll see later in the book, the many tools of technical analysis can give you a solid indication of coming price trends, and the mood of the markets. But it's important to be realistic and recognize that no tool is foolproof, and you can't win on every trade. The bottom line is the indicators aren't right 100% of the time.

Swing traders can also earn profits from declining asset prices. For example, you can short stocks or purchase put options. If you don't understand how that works now, don't worry, we will discuss that in the coming pages.

For now, let's just understand the overall picture. This time you enter your position when the asset price is relatively high, and all the signals are pointing to a coming downward trend. Then when the price drops to a profitable level, you exit the position. Graphically it looks like this.



This is the central idea behind swing trading. Of course in practice, its not that simple otherwise everyone would be doing it and raking in millions of dollars. Becoming a successful and profitable swing trader requires mastering the tools of technical, chart, and fundamental analysis so that you know when to enter and exit positions, and whether to go long or short your positions. We will be discussing all of those tools in the book. For now, let's take a step back and take a look at the three biggest markets where swing trading is used.

Swing Trading with Forex

Forex is the foreign exchange market where the various currencies of the world are traded against one another. Forex isn't just in the United States, there are trading markets around the globe, so it's a huge market, with $5 trillion traded daily – compared to $200 billion on the stock market. The largest markets are in New York, London, Tokyo, and Singapore. Currencies around the world are traded in pairs, so you could trade the dollar against the Great British Pound, or the Dollar against the Yen, or the Euro against the Pound, for example. While all currencies in the world are traded, the focus is mostly on currencies used in the largest economies, including the Euro, the British Pound, the US Dollar, and the Japanese Yen.

Unlike the stock market, which goes through brokerages that charge high commissions, Forex is traded over the counter with small or no commissions. Since there are markets worldwide, it's open 24 hours a day, 5-days a week. It's also highly liquid. That means there is enough volume in trading activity to enter and exit positions quickly, making it well suited for swing trading. During any business day of the week, traders can open and close positions 24 hours a day. It's also possible for traders to utilize a great deal of leverage on the Forex markets as well.

Swing trading on Forex doesn't require a huge time commitment. You can check your charts a couple of times a day, so its suitable for someone with other things going on in their life like a job, that makes it hard for them to sit at the computer all day long.

Several swing trading methods are used on the Forex markets, including those we will discuss in the book, including candlestick trading, trend trading, range trading, mean reversion trading, chart analysis, and Bollinger band trading. There are also several more that we will discuss in later chapters.

Swing Trading with Options

Options are a type of derivative that allows you to control shares of stock without actually owning them. There are two types of options, calls and puts. Calls give the buyer of the option the right to buy the underlying shares of stock at a price called the strike price. That price is fixed in the contract, and so at any given time may be well above or below the market price for current trading. Since it may allow holders of the options contract to obtain the underlying shares of stock at a reduced price, options contracts can be valuable. However, they come with an expiration date, which means they are also becoming less valuable as time passes. You can think of it as an old style hour glass, with the sand in the upper part of the hour glass representing the time value of the option. As it drains into the bottom part of the glass, the option is losing value, and eventually the time value all drains away. However, if the strike price is lower than the market price, the option still has value and can even be *exercised*, which means that the buyer of the option can elect to actually buy the shares. Because of that intrinsic value, call options gain value with rising stock price.

Options also make it easy to profit from downturns in stock price. In this case, you would purchase a put option, which gives the buyer the option to sell a stock to the writer. Put options also have a strike price, and they become valuable when the strike price is higher than the market price of the stock. What this means is that the buyer of the option could then purchase low prices shares on the market, and then exercise the option by selling the shares to the writer of the contract. The more the stock drops in price, the higher the value of the put option. Of course put options also come with an expiration date, so the decreasing time value also impacts the pricing of put options.

Options are inherently short term assets, making them ideal for swing trading. The shortest term for an option is one week, so the option will expire a week after its issued. Most options are monthly, but there are longer term options that can expire up to one or two years from the current date. Those are called LEAPS, which means Long term Equity Anticipation Security.

Options can be purchased on many securities, as well as on indexes. They represent a great opportunity for swing traders because they don't require much capital to invest up front, and there are also strategies that can be used to limit risk. For swing traders, the same tools and analysis that would be used with stocks are used with options, since the value of the option is directly related to the changing price of the underlying stock. However the swing trader of options needs to be paying attention to the expiration dates of any options in their portfolio.

Swing traders who trade options will primarily use the techniques that swing traders of stocks will use.

Swing Trading Stocks

Swing trading stocks is very popular, since there are many highly volatile stocks and stocks tend to breakout to the upside or downside quite often. While the stock market is less liquid than Forex, because of the way the markets behave, stocks can be more amenable to many swing trading strategies. A swing trader on the stock market can profit from price appreciation by going long, and can also short their positions when appropriate.

Swing traders on the stock market will utilize all the strategies of swing trading. This will include trading with the trend, looking for breakouts, Bollinger band trading, chart pattern analysis, candlestick trading, and more.

As we’ll see in the next chapter, swing trading has some similarities to other styles of trading and investing, but there are also many differences. Swing trading is not something that a Warren Buffett style investor would be interested in.

Chapter 2: Swing Trading and Other Styles of trading

In this chapter, we will compare and contrast swing trading with some of the main strategies that other traders and investors use. First we'll look at day trading, and then we will compare swing trading with position trading and buy and hold investing. Then we'll talk about buying long and selling short.

Swing Trading or Day Trading

One of the ways that traders are divided is by the time frame over which they enter and exit trades. This is the main differentiating factor between day traders and swing traders, and that has a lot of implications. First lets start from the basic approach used by both methods of trading. Both seek to earn profits from price moves of a financial asset. Swing traders enter their positions and keep them for any time frame ranging from days to weeks, even out to a couple of months.

In contrast, day traders seek to enter and exit their positions within one trading day. In fact a day trader can take multiple trading positions on the same day, but will be out of all of them by market close. While swing traders hold positions overnight, a day trader always exits their positions. This is necessary because day trading involves minute by minute monitoring of their positions, and they enter trades and exit them on time spans of hours. If a day trader were to hold positions overnight, it's possible that they would lose all the money in their positions from activity over the span of minutes at market open.

Being a day trader requires an intensive time commitment. The trader must keep a close eye on the markets and their positions as long as they're active. They seek highly volatile stocks, often trading small-cap and even micro-cap stocks, looking to profit on what to others is the noise in the stock market. Company fundamentals play a minor role, if at all, in the analysis of the day trader. In most cases, day traders are looking to earn profits from price fluctuations that result from big players buying and selling shares. Fundamentally, day trading comes down to profiting off the fluctuating supply and demand of shares. Commissions from the brokerage can be a huge expense for day traders, since they may have to execute a large number of trades each day.

Swing traders can invest in companies of any size, including large-cap blue chip companies. Swing traders can also trade index funds, which is probably not something a day trader would be looking at.

As we've stated, swing trading involves positions that can be held days, weeks, or months. This has important ramifications when compared to day trading. Over these extended time periods, company fundamentals can become important. Earnings reports, product releases, changes in management, or just changes in the economy at large can impact asset prices on these time scales. That means a swing trader needs to be paying attention to company fundamentals.

In most cases, swing trading can generate larger profits, per trade. That's just a fact that comes from how things operate when you hold your positions longer. There can be exceptions, but that is the general rule. Furthermore since swing traders are entering fewer trades, they are going to be facing lower levels of expenses arising from commissions and fees.

Despite these differences, day traders and swing traders rely on many of the same tools. These include analysis of chart patterns, trend lines, Bollinger bands, and candlesticks, among many others. But, they are using these tools over different time frames. For a swing trader, the short term fluctuations of a stock within an hour are probably not attract the same level of interest as compared to a day trader.

The two trading styles don't just differ in technical details like the length that a trading position is held. Swing trading and day trading have different capital requirements, time commitments, and even different mindsets, even though there will be some overlap.

Although you can make an absolute distinction on paper, it's not always an "either-or" dichotomy. Some traders are exclusively one or the other, but it's also possible to engage in day trading and swing trading at the same time. That is not an approach that is recommended for most people, and splitting your attention like that would probably inhibit your odds for success.

But let's take a closer look at some of the differences. The first difference that immediately stands out are capital requirements on the stock market. Day trading is a closely watched activity by brokerages and federal regulators, because it's believed to be very high risk. In fact, to open a day trading account in the United States you need to have a minimum of $25,000 in the account.

According to the United States government, you are a "pattern" day trader if you engage in four day trades within any five day period. Weekends don't count, only business days. To be a day trade, you have to buy and sell the same security on the same day.

All trading is risky, but compared to day trading swing trading carries far less risk. The short term minute-by-minute fluctuations that can wipe out the account of a day trader aren't nearly as relevant to swing trading. One consequence of this is that swing traders have a lot of flexibility when it comes to the amount of time that you are going to devote to trading. While its possible to be a full-time swing trader, many swing traders only do it on a part-time basis. The fact that they are looking to profit on longer-term price movements means that it's even possible to submit trades after hours.

Another consequence of the lower overall risk of swing trading is that there are no capital requirements. Financial advisors might have recommendations, but you can open an account of any size and begin swing trading.

Day trading is something that requires intense focus, and it's also a high stress lifestyle. While swing trading can certainly bring stress if positions aren't moving in the right direction, the longer time frame means that sustained attention to the stock market all day long isn't required. The overall stress level is also quite a bit lower. Day trading attracts action-oriented “type A” personalities. In contrast, since you are holding positions for longer periods that can require waiting for the right time to make a move, swing trading actually requires patience.

Since Forex is over the counter and lightly regulated, it has lower capital requirements for day traders. You can day trade on Forex with as little as $500. There are not official requirements for swing trading on Forex, but its recommended that you open an account with at least $1,500.

Swing Trading vs. Buy and Hold Investing

Buy and hold investing is a long-term strategy that seeks to preserve wealth and grow it over time. A buy and hold investor is not interested in short-term market fluctuations, generally speaking. At the most, a buy and hold investor will look to purchase stocks when they are undervalued, so they may take advantage of a drop in price. They never short the market, and instead hope to profit over years and even decades from the overall rise in the stock market as the economy grows.

The techniques used by long-term investors are very different from those used by swing traders and day traders. Ups and downs of market prices are largely ignored, and they utilize a strategy called *dollar cost averaging* to purchase shares at regular intervals, regardless of the price. Over time the highs and lows average out as overall, there is asset appreciation.

The second major strategy that buy and hold investors use is diversification. They want to invest in a large number of stocks so that while individual stocks might have ups and downs, the overall portfolio tracks the market. They are satisfied matching market returns. In fact, many buy and hold investors take this to the extreme, investing only in index funds that track major indices such as the S & P 500. These types of investors don’t even do much fundamental analysis, and it’s a strategy that requires little day-to-day attention.

As you can see, there are many differences between long-term investors and swing traders. While the long-term investor is attempting to build up a diversified portfolio over years and decades, a swing trader may be focused on one or two stocks, and exit the positions in a matter of days. While buy and hold investors are satisfied tracking overall market performance, swing traders seek to beat overall market performance. Swing traders utilize the tools of technical analysis in order to find the right entry and exit points of their trades. Long-term investors ignore them and don't care about short term fluctuations or swings.

Swing trading or Position trading

Position traders seek to hold an asset for a long period of time, but they are not buy and hold investors. They are traders who seek to earn profit from their trades, rather than holding assets in order to build wealth. Position traders on the stock market can hold positions for several weeks, months, or even years.

Position trading on the stock market can be viewed as a long-term version of swing trading. They will rely on both fundamental and technical analysis. Since position traders will on average hold assets for a longer time period than a swing trader, fundamental analysis plays a larger role in their decision making. Capital is more liquid for swing traders, since they are entering and exiting trades more often. Position traders will have their capital locked up in an asset. This can last for potentially long periods. Since they are holding long-term positions, position traders are more sensitive to economic trends and the overall state of the stock market.

Position trading is not an active form of trading. They are hoping the long-term appreciation of the asset will lead to profits. Day traders may do hundreds of trades per year, but position traders enter into about 10-12 trades per year on average. Swing traders are more concerned with short term fluctuations in asset price than position traders, although position traders need to be alert to trend reversals that could cause losses.

There are many similarities between swing trading and position trading. They both rely on fundamental and technical analysis, and compared to day traders hold their positions longer. They are both trend followers who seek the right entry and exit points for their trades. Overall, it's simply a matter of trading frequency.

While options are a perfect fit for swing traders, position traders won't trade weekly or monthly options. However, you can use LEAPS for position trading, since you can hold them for long time periods, even up to two years.

Position trading is also a popular Forex strategy. Fundamental analysis plays an important role in Forex position trading, even including macroeconomic factors like changes in GDP. They will use technical analysis to determine entry and exit points for trades. Position traders also have a wider stop loss, which may require more up front capital. However, position trading on Forex tends to have a favorable risk-to-reward ratio.

Market Participant

Market participants include many people and organizations. Most fundamentally, market participants include the buyers and sellers on a given market who transact to transfer assets. A market participant must be capable of entering the transaction. Other market participants can include:

- Broker Dealers who handle trades between buyers and sellers, and may use their own inventory to facilitate transactions.
- Clearing Agencies, who clear and settle trades.
- Electronic communications networks that automatically match buyers and sellers at specific prices.
- Investment advisors that provide advisement for a fee and/or issue publicans on investment recommendations. They can be companies or individuals.
- Securities Exchanges are the markets where securities are bought and sold. Stock markets in the United States include the New York Stock Exchange and NASDAQ. Options are traded on the Chicago Board Options Exchange.
- Transfer Agents maintain records related to securities and record changes in ownership.

High frequency trades

High frequency trading is computer-based algorithmic trading. It utilizes computer software to perform multiple trades per second. There is little human input to high frequency trading. Since multiple trades are executed per second, this can lead to large moves on the market that can seem mysterious to live, active human traders. High frequency trading has been encouraged because it generally increases liquidity on the markets. However, critics complain that high frequency trading puts small retail investors (that means individual investors) at a disadvantage.

How to start trading

The first step is to sit down and do an analysis of your own situation. Begin by deciding what your goals are and the level of commitment you are able to devote to swing trading. This includes the amount of financial capital that you have available to invest, as well as the amount of time you are able to devote to swing trading. This can change down the road, but you should map out your first three months. At a minimum, you are going to need a working computer and a solid internet connection. It can also be helpful to have a smart phone, because many brokerages have apps that can be used as an additional tool. Mobile apps can help you monitor the markets, make trades, and receive alerts. You may also want a printer to print out charts that you can analyze by hand, but many investors just study them on the computer.

Once you have all of your equipment nailed down, the next step is to select a broker. The stock brokers of yore have been replaced by online websites and mobile apps. Each broker has their own advantages and disadvantages. Some of the factors that you will want to consider are:

- Commissions charged per trade. High commissions can eat people alive when they are doing a large volume of trading. For swing traders, this isn't as much of an issue as it is for day traders, but it could still be important. These days there are many options available providing a wide array of pricing and features. Keep in mind that the brokerages with the highest commissions don't always have the best features.

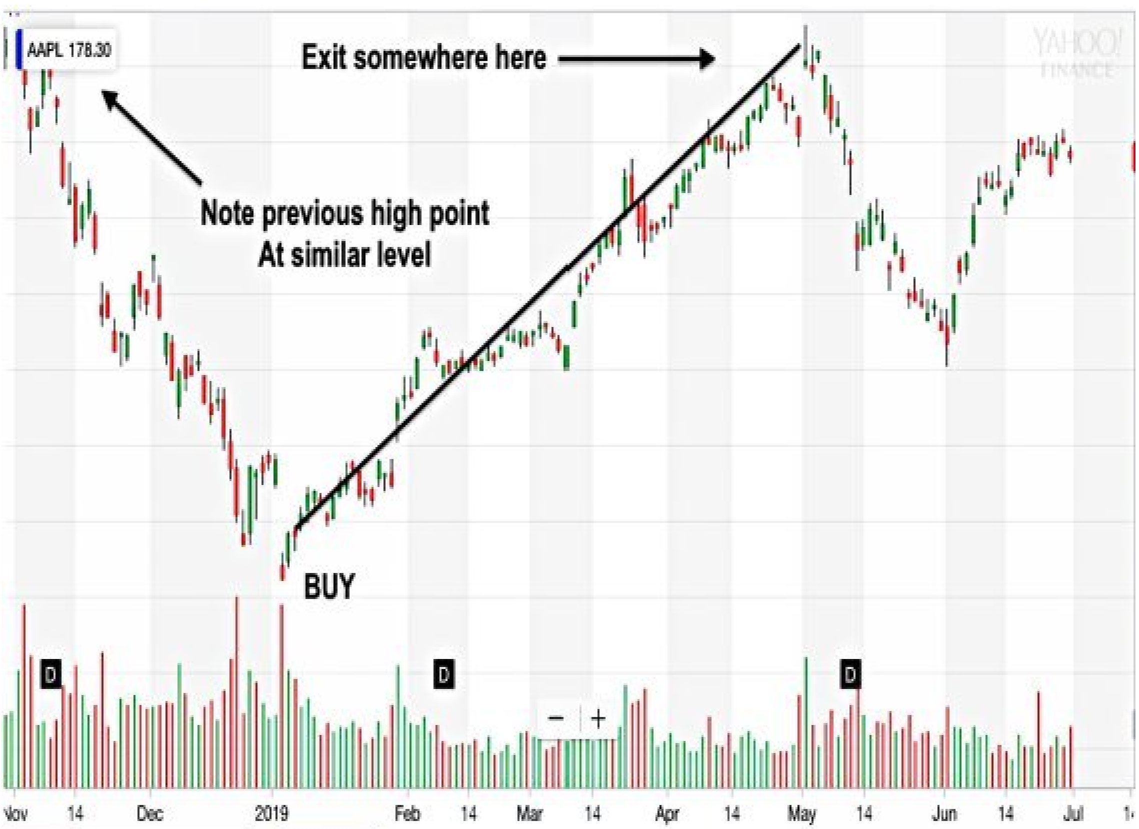
- Minimum deposit. If you are hoping to start small, you might want a broker that doesn't require a large minimum deposit. The requirements vary, and some don't require any minimum deposit.
- Simulated trading. Many brokerages offer trade simulations that help new traders hone their skills. Going through the process can help you get a feel for swing trading and you can see what the results would have been, without using real money.
- Trading platforms. In today's world, a broker with multiple trading platforms is essential. You will want a broker that also offers a mobile app.
- Ease of use. This one is hard to evaluate without experience. You might want to sign up with more than one broker if it's possible, so that you can directly test their platform. If that isn't something that is feasible, you can read online reviews.
- The ability to trade options. Even if you don't go in right away trading options, you will want to have that feature available in case you decide to try it down the road.
- Analytical tools. You will want strong analytical tools for your charting as well as for determining potential profits.

In our experience, newer brokerages are better options. Tasty-works and Robinhood are good options, with the latter being an excellent choice for beginners. The main argument against Robinhood is the skeletal set of features. But you can make up for that by utilizing charting on other free platforms like Yahoo Finance. However, Robinhood is very simple to use in order to execute trades.

The science of buying long

Buying long means entering trade when a swing is at a low point or point of support. That is, you are expecting the asset to appreciate in value, so you will buy at what you think is a low price, hoping to profit on coming gains in a swing.

Knowing the best times to enter a trade depends on many factors studied in technical analysis, and we will discuss them in detail later. For now, we only seek a qualitative understanding of the science of buying long. In Swing trading you are hoping for an upward trend in price that can last anywhere from a day to several months. You enter the trade at a low point, and then exit within one swing. Entering a trade means buying the stock in this case, and exiting the trade means selling the shares and taking your profits.In the example below, we see Apple provided an opportunity to win with a swing trade over the course of a couple of months. Notice that the previous highs would provide a guideline for the pricing level when you should sell your shares. The range to enter the trade was actually fairly obvious, because the share price had been much higher recently. If that was a level of resistance you can use that to execute a limit order, which means that your shares will automatically sell if the market price meets or exceeds the price specified in your limit order.



The chart indicates that after falling to a possible low, Apple may have established a new level of support, as seen on the right side of the chart.

The science of selling short

Selling short can be a new concept to many investors. If you are like most people, you've only thought about the stock market in terms of buying long. And chances are you’ve been thinking of it in terms of long-term investing over years and decades.

Selling short can be an entirely different ballgame for many people. While the stock market appreciates in value over the long term that tends to average out prices, in the short term stocks can fall quite a bit. The market provides ways that you can profit from these declines. There are two ways to do it, you can short (sell) the stock, or you can invest in put options. Either way, you would do this when you see the stock entering a downward trend.

In order to short the stock, first you borrow the shares from the broker. Then you immediately sell them to get cash in your account. After this, you simply wait for the share price to drop. If it drops significantly, then you can buy the shares back at a lower price. Remember you borrowed the shares from the broker, so you can simply return the shares. Your profit is the difference in prices.

For example, suppose a given stock was trading at $50 a share. If a major decline was expected, you could borrow the shares, and then sell them on the market. Later, the decline materializes. Let’s say the share price dropped to $20 a share. You can buy them back at this discounted price, and then immediately return them to the broker. Your net profit would be $30 a share, ignoring commissions.

Put options offer another, fairly straightforward way to bet against a stock. If the price of the stock goes below the strike price of the put option, then the put option will gain intrinsic value. Remember that options have an expiration date as well. What you want with a put option is for the share price to drop below the strike price. That makes the put option far more valuable. If that happens, a trader can exercise the option and use the same strategy described above.

Suppose that once again, we are interested a stock trading at $50 share. We buy a put option with a $50 strike price. Then the stock tumbles as expected. We then buy the shares on the market for $20 a share. Then we exercise the option, which in the case of a put means that we sell the shares to the writer of the contract at the strike price. So once again we earn $30 in revenue from the decline in share prices. When discussing options, you have to figure the option price as well as commission in your expenses.

Chapter 3: Tools and Platforms for Swing Trading

If you want to swing trade, you're going to need to open a brokerage account. A brokerage is just a company that plays the role of middle man. The brokerage maintains an account for you and keeps records of your trades. It also allows you to deposit funds that can be used for trading, and allows you to take out your profits. They will also take care of the necessary tax forms on your behalf. The central role of the broker is to execute trades. So when you want to buy or sell shares, the broker will do that on your behalf. You can also borrow shares from the broker, or borrow money to make larger trades, if you have a margin account.

Before choosing a broker, you're going to want to decide what financial assets you want to trade. Some brokers might not give access to all types of securities. This might be more important if you are interested in trading Forex or cryptocurrencies, finding good stock brokers is fairly straightforward. However many of the leading stockbrokers will also provide access to trading Forex, crypto, and other assets.

Types of Accounts

The first thing you're going to want to consider is whether or not you want a full service brokerage or a discount broker. A full service brokerage is one that provides professional financial advisors to help you make your investment decisions. Some may even be able to assist you with swing trading. However, be aware that commissions are going to be an important factor when you trade frequently. It's one thing to set up a periodic investment in an index fund, and quite another to be making several trades a month. For that reason, most swing traders are going to be interested in discount brokers.

Besides looking into whether or not you go with a discount broker, you are going to want to determine whether or not you open a cash account or a margin account. By law, to open a margin account you must deposit $2,000 up front. The advantage to opening a margin account is that if you qualify, it will enable you to borrow money and shares from the broker. This opens up the possibility of shorting a stock, or using leverage in order to purchase more shares than you could with your cash alone. Typically, swing traders can get 2-1 margin, which means if you deposit $2,000, you can buy $4,000 worth of stock.

Examples of popular brokerages include E Trade, Tasty works(particularly good for trading options), Robinhood (zero commissions), TD Ameritrade, along with more traditional brokers such as Fidelity or Charles Schwab. In each case, check to determine if you can trade the financial assets you are interested in trading. While its easier to have one account, if you are going to have diversified trading such as trading stocks, options, and Forex, you might have to get a different broker to manage your Forex trades. Of course it's advisable that beginning traders stick to one asset, at least at first.

Expert Advisors

Full service accounts used to only include those with a professional financial advisor. However, over the past decade or so, a new type of full service account has developed that relies on software or "robot" advisors to manage it's accounts. These often go by the name "expert advisor". This type of account is managed for you, and the robot will pick stocks/options or currency trades to buy and sell and when to sell them. That may or may not appeal to you, the idea of having a robot running your trading account might be a bit intimidating.

Retirement Accounts

Swing trading methods can be used to grow retirement accounts, such as an IRA or a 401k. However, keep in mind that you will probably be put in a position of reinvesting profits from swing trading toward the purchase of more assets inside the retirement account. So it would not be traditional swing trading in the sense of earning profits in the here and now to cash out. If you cash out early from retirement accounts, you're going to lose a lot of benefits because of heavy taxes and early withdrawal penalties.

However, swing trading is an intriguing way to grow your IRA from the inside. By law, you can only deposit about $5,000 or so per year, depending on age. But using swing trading, you have the potential to rapidly grow the account by earning profits inside of it. They can then be used to purchase more shares. If you are good at swing trading, you can double or triple the amount by which the account is growing per year, without violating any laws regarding contributions.

It's always a good idea to have a retirement account as a part of your overall portfolio, so swing trading inside the account can be part of your larger financial strategy.

Opening a Brokerage Account

Opening brokerage accounts is a pretty simple process, its like signing up for an account with anything online. Enter your name, address, and bank account information. Some brokerages may require that you make an initial deposit to get started. If you are a beginning swing trader, consider using Robinhood. This is an app based trading platform that is somewhat skeletal, but also very easy to use. With Robinhood, there are zero commissions and no minimums. So you can limit your deposits to the amount of money that you want to use for trading, rather than having to meet some arbitrary funding requirement.

Keep in mind that if you want to trade options, the broker is going to want to make sure that you understand what you are getting into. Usually, an interview of some kind is required before you can trade options. They are going to want to make sure that you understand that options are speculation and not investment. That means that you are buying financial assets in the hope that the price of the asset is going to rise over a short time period. This is in contrast to investing, where you are sinking your money into a company for the long haul. So you want to explain to the broker that you want to do speculation more than investment and that you understand what it means and what the risks are. Second, you will want to assert that you are interested in short time horizons, and not long term investing. You will also be asked some basic questions about income level and net worth. However, don't worry about those, they are pretty flexible on those points. Options trade for tens to hundreds of dollars, so you don't have to be rich to get started.

The main purpose is simply to satisfy the broker that you completely understand the nature of swing or option trading. It does not preclude you from entering into long term investments as well.

Tools Available Online

Many brokerages are self-contained, that is they include all the tools you need in order to operate as a swing trader. At a minimum, you should make sure you have access to the following:

- The ability to chart stocks out to a minimum of five years, preferably longer.
- You should be able to create candlestick charts, not just line charts.
- You should be able to easily switch between different time frames, such as days, weeks, and months.
- There should be access to moving averages, especially simple and exponential moving average tools, with the ability to set the number of periods and include more than one moving average on a chart.
- Other moving averages may be of interest, such as the Hull moving average.
- You will want to be able to utilize Bollinger bands.
- You want access to financial statements along with rundowns of cash flow.

If tools like these are not available, you can visit Yahoo Finance where they can be utilized for free. Some trading platforms have practice or simulated stock markets where you can practice trading real securities, without having to invest any money. This is a very good way to start training yourself, but of course without the strong emotions that come when real money is involved, they are of limited value.

Once you’ve setup your account, you’re ready to get started. The next task is to learn how to analyze stocks and stock charts, and look at technical analysis.

Chapter 4: Swing Trading and Financial Instruments

Swing trading is a technique that has general application. Therefore it can be applied to the trading of any financial instrument that experiences price changes on the sale of days, weeks, or months. Swing trading can be discussed in the context of Forex, stocks, or even bonds, but it is not a specific tool geared toward any specific financial asset. Once you understand the basic techniques used with swing trading such as moving averages, then you can apply them to any financial asset you are interested in trading.

Swing trading really isn't a strategy. In fact, it uses the same strategies used by day traders. Rather it's simply a time frame or style. So the same strategies are used but they are applied to different time frames. This has significant implications of course. Day traders are actually looking for the same types of price moves, just on different time scales. Since a swing trader is willing to hold their position overnight and out to weeks or even a few months, the risk is significantly lower.

Some of the tools and strategies used by swing traders that are also used by day traders including:

- Looking for support and resistance
- Looking for chart patterns
- Moving averages
- Bollinger bands
- Trending and counter-trending
- Looking for signals in candlesticks

We will be discussing each of these in future chapters.

Forex

Forex is short for foreign exchange, and is a market where people trade one currency against another in pairs. Traders seek to profit from price swings of trading pairs and use a technique called long-term trend following. Swing trading also follows trends, but does so over short time periods, but time periods that exceed those used by day traders. On Forex markets, you can expect to hold positions for more than a day to a few weeks. Forex traders that use swing trading as a technique will study charts over the course of days to look for bring price swings they can take advantage of to earn profits.

Swing traders on Forex are looking for volatility. When there is more volatility, there is a greater chance that prices will have larger swings between high and low values, offering more chances for short term profits. Large price swings as well as more frequent price moves can aid the swing trader.

As a swing trader on Forex, you aren't going to be as concerned with specific currency pairs in terms of what currencies make up the pair, but whether or not the pair offers the types of price moves you are looking for, that is big swings that offer a solid buy-low and sell-high possibility. Moving averages are frequently used when applying swing trading to Forex. As we will see in a future chapter, using moving averages can help you properly identify coming market trends, and therefore find the right entry and exit points for your trades.

Swing trading is quite different than scalping, so you are not looking to profit from small price movements that occur over very short time periods. Scalping and day trading require a lot of attention to the markets that will have to be focused whenever you hold a position. Because swing trading takes place over longer time frames, constant attention to the markets isn't necessary. Of course you still have to pay attention, but its something that is far more amenable to part-time attention rather than having to go all in. When using swing trading on Forex, you will want to keep track of economic and political news that has the capacity to roil the markets or cause rallies for one currency over another.

Options

Options are a type of derivative that has an underlying financial asset, such as shares of stock. Most option traders are trading stock options. The option gives the buyer the right to buy or sell shares of stock at a fixed price, which is called the strike price. Options that give the buyer (of the option) the right to buy shares of stock are known as *calls*. If the option gives the buyer the right to sell shares of stock at the strike price, it's known as a put.

Option trading is amenable to swing trading because options are time-limited. Every options contract comes with an expiration date. The lifetime of an option can be quite varied, lasting from one week (so-called weekly) to a month, to several weeks, and even one year or more. Options that last one year or more are called LEAPs. However, no matter how long an option lasts, they all operate in basically the same fashion.

Unlike stocks, part of the pricing of an option is determined by "time value". The closer an option gets to the expiration date, the less time value the option has. That adds an extra wrinkle to trading options that other financial securities don't have – for example you can hold stocks for however long as you like. For details on how this operates, please download my book on Options Trading.

Since options (generally speaking) have a lifetime that fits well within the time periods that swing traders use, they naturally fit within a swing trading paradigm. A swing trader of options can use the same techniques of analysis that a swing trader of stocks or other financial assets will use to determine price swings. Puts offer an opportunity to short the market, so swing traders interested in shorting can use puts for that purpose rather than having to deal with the complexities and risks of using margin to borrow shares of stock.

Options have many strategies that specialists in options trading use to generate income, but those are not of interest to the swing trader. A swing trader will only be interested in using swings in stock price to profit from trading calls or puts at the right moment in time. This is a simpler approach rather than having to learn all the complicated schemes that have been put together to minimize risk with options. Instead, you will use the same tools to look for signals in the market that a swing trader of stocks is using, and then take advantage of buy and sell signals to buy or sell the appropriate options. The main difference will be focusing on the time value of the options and noting how that can impact pricing.

Stocks

Swing trading obviously has application to the stock market, and we will use it for many of our examples. You can use swing trading to profit from the moves of any stock, but high volatile stocks are going to work better, because you are more likely to see large price swings in the stocks that you decide to take positions in. When using swing trading with stocks, there are different ways to approach it. At any given time a stock may be fluctuating within specific ranges, and you can use this information to get a general idea of what the best share prices are to enter and exit trades. Big news can always cause a massive pricing move, and one thing you will look for are earnings reports. Its also important to study company fundamentals, but with an eye on profits during the current and next quarter rather than viewing them through the lens of a long-term investor. Earnings reports can offer opportunities to profit from swing trades, provided that you are correctly anticipating the way the reports are going to go. Most of the time whether or not a company is actually profitable over the previous quarter isn’t as important as to whether or not they fail to meet, meet, or exceed expectations. Something that you will be interested in doing is seeing what analysts are saying so that you know what the expectations are. Keep in mind that it’s possible to make an incorrect judgment in this case, which can lead to significant losses.

Product news and even political and financial news can have a large influence on stock prices. If the FDA approves a new drug, then that could mean a significant rise in share prices. The introduction of a new smart phone might do the same, but if features were not as exciting as investors hoped, it can leave the stock moving sideways or even crashing low.

While paying attention to news is important, you don’t want to give it the most weight. The fact is you are going to be the last person getting the news, long after institutional investors or large hedge funds have gotten the information. At best, you’ll be getting the news at the same time but they are going to be able to react to it instantly, long before you can.

So most of your focus should be directed at looking at the stock itself, and how its behaved over recent time frames and out to a year. You don't necessarily want to look back too far, since behavior of the stock five years ago isn't nearly as relevant as the behavior of the stock in recent months.

Some of the tools used for doing analysis on the stock market are the exact same tools and techniques that would be used on Forex. First and foremost, this will include using candlesticks and recognizing various chart patterns. You will also put a lot of emphasis on using support and resistance.

Simply put, support is a price level below which the stock doesn't seem to fall past. Of course it can fall below the support level, but if a lot of the data from previous charts suggest a strong support level, that means that its going to take major bad news about the company to cause it to drop significantly below that point. This can be used as an entry point for your trades.

Resistance is the upper price level the stock may be unable to break. Like support, its going to take a major change to get the stock to break above resistance. That major change could take many forms, it might be the introduction of a new product, an unexpectedly positive earnings report, or a change of CEO. Therefore you should spend time following the news related to companies you are trading, but don't let that be the final word, or obsess over it too much. Just use it as one piece of information in your overall toolkit. To see why, go back to the spring and summer of 2008 and see what all the analysts were saying – most of them were dead wrong. Of course that doesn't mean they are always wrong, they are often right, but you have to take what they say with a grain of salt. So use your analysis and spot trends, know where the levels of support and resistance are, and then pay attention to special news items or events that could cause a major price change for the stock of the company.

Chapter 5: Fundamental Analysis

Fundamental analysis is a process by which you study the fundamentals behind a financial asset. On the Forex markets, you will be looking at the state of the economy, GDP growth, and political factors that impact the overall picture and stability of the country. If these items are looking good, that means the currency for that country will gain strength. But since currencies are traded in pairs on Forex, that means you also have to compare fundamentals between countries. If Europe looks strong but Japan is looking even better, then the Japanese Yen would strengthen as compared to the Euro.

When it comes to stocks and options, the fundamentals include profit margins, price to earnings ratios, cash flow and other indicators that give a picture of the overall health and prospects of the company. You'll be wanting to take a look at quarterly earnings, and reviewing earnings calls for companies that you are invested in. Fundamental analysis also means looking for stocks that are currently undervalued. The price of undervalued stocks is likely to increase at some point in the future, so spotting an undervalued stock could be useful for the swing trader.

Since swing traders have different time horizons as compared to buy and hold investors, short-term results like earnings calls are going to take on a larger role, as compared to looking at trends in revenue and profits over the course of years. A good earnings call can send prices soaring, while failing to meet expectations can send stocks into a rapid decline. When there are events like this as a swing trader you have to be ready to seize upon them as quickly as possible.

It's also important to keep your eye on company news of a more general nature. If a product fails or ends up creating legal trouble for a company, that can be an opportunity to short the stock or invest in put options. Alternatively, the release of a new product that exceeds expectations can be an opportunity to go long on the stock.

Financial Reports to Read and Where to Get The Information

The SEC requires that all publicly traded companies make audited financial statements available. This includes a prospectus and an important report filed annually which is called the *10K*. In these documents you'll find audited records that include items such as cash flow, balance sheets, and other financial data. They also include important information about the management team and competition the company is facing in its sector. The company must also give shareholders an overview of its future plans and information about attempts to enter new markets. You can visit company websites to get these reports, or do an online search using the company name with "10K" or "prospectus". Summaries of financial information are also available on many stock websites free of charge. For example, you can get income statements, balance sheets and cash flow on Yahoo Finance for any company that is listed on the stock exchanges.

There is also another important report that may be released from time to time, called an 8K. These contain information similar to that found in a 10K, but they are only filed when important short term information has to be disclosed to investors. At times, the information contained in an 8K can have a major impact on share price.

Financial Statements in More Detail

There are three general types of financial statements, in case you aren't fully aware. These include the following:

- Income statement: An income statement will include information such as revenue, gross profit, and operating expenses. These reports can help you determine the overall health of the company, and you can look for trends in revenues and profits over the past few years. Be sure to look for net income as a percentage of revenue. As a swing trader, while you are going to want to have an understanding of the overall health of the company, you are going to be more interested in looking at quarterly statements and keeping up with earnings calls and other announcements.
- Balance sheet: A balance sheet shows current assets and liabilities for the company. Current liabilities are of particular note on a balance sheet. You want to look at a balance sheet thinking about

the financial health of the company. Is it carrying a large amount of debt? Is the amount of debt increasing, and could that prevent the company from being profitable or paying dividends at current levels? These factors may make a company less appealing to investors. When a company is younger and in an aggressive growth phase, investors may be more tolerant.

- Cash Flow: Cash flow is a summary of items such as net income, changes to inventory, depreciation, changes to liabilities and financing opportunities among others. Cash flow can give you a good overview of recent company performance and is another way to gauge the health of the company. Pay special attention to changes in inventory. Ask yourself if it looks like the company is able to move its product.

When examining quarterly data, you'll want to compare quarterly results to the same quarter a year earlier. In many cases, company performance will depend on time of year, so the best way to see trends in the company's performance is to make an apples to apples comparison, rather than just looking at how revenue and net income changed from last quarter to the most recent quarter.

Earnings Calls

On a quarterly basis, one of the most important events for a swing trader is the earnings call of the companies that the trader is interested in. Earnings calls can lead to dramatic swings in stock price, depending on whether it's a good earnings call or a bad earnings call. In the crazy world of Wall Street, an earnings call largely depends on what people are expecting out of it, rather than any absolute measure of performance. For example, if investors *expect* earnings to increase 25%, and the company reports that it only grew earnings by 10%, even though any rational person would view that as a positive, Wall Street is probably going to react negatively. Of course, if the report shows a decline it's going to be that much worse. The thing about this for the swing trader is we don't know how strongly the market will react. If share price is $200, it might drop to $180, or it might drop to $170. Nobody knows ahead of time, but you should be ready to enter into your trades accordingly.

Things work just as well the other way around. If analysts were expecting a company to see a 10% increase, but they report an 18% or 25% increase in year over year profits instead, this will send the stock soaring. Again, nobody is sure how high it will go. You will have to have a preset value of profit you are willing to accept on a trade, and place a limit order ahead of time. Then you have to live with the results. If your limit order is at $220 a share, you can be happy with your $20 a share gain, even if the stock keeps rising. A disciplined trader that doesn't get greedy is far more likely to succeed over the long-term.

While it's impossible to know ahead of time how an earnings call is going to go, you can gain some familiarity with a company and how the market reacts to it by going over previous earnings calls. Do so by not only reviewing the content of the calls, but by looking to see how strongly the market reacted to them.

Keep in mind that a bad earnings report isn't just an opportunity to short stock or invest in put options. When the stock drops, it's also an opportunity to get in at relatively low price point. Don't set perfection as a goal for your trades. The only thing you should worry about is getting in on the stock when prices are relatively low as compared to the previous price level. If it continues going lower, beating yourself up over missing the opportunity is a waste of energy. Instead, focus on waiting – for the stock to go back up so you can profit at a future date.

If the earnings report turns out to be a good one, you might want to be ready to enter into your position immediately. Then you can ride the wave of rising share prices. It's not necessary to invest before an earnings call and it could even be a bad decision to do so, because you won't know for sure which way things are going to go. In any case, earnings reports are an important part of your fundamental analysis to see how the company is performing.

Price to earnings ratio

An important metric that matches share price and earnings per share is the *price to earnings ratio*. Investors and traders are on the look out for price to earnings ratios that are excessively high, and also for price to earnings ratios that are low in comparison to similar companies in the same sector. If the price to earnings ratio is excessive when compared to other companies in the same sector, that could mean the stock is overvalued, and might head into a downturn at some point. Conversely, an undervalued stock as indicated by a relatively low price to earnings ratio is a stock that is available at a "discount", because it's undervalued. At some point – the thinking goes – the stock is going to rise in price up to it's true value.

You shouldn't just take the price to earnings ratio at face value. If you notice one that is out of line with the rest of the industry, you should do some research to find out if there is some external reason behind the difference. That may require a detailed check of news about the company on financial websites, as well as reading press releases and 8K reports issued by the company.

An interesting and recent example is Ford Motor Company. At nearly 14, the price to earnings ratio of Ford is nearly twice that of other auto companies. Compared to GM, it's actually more than twice as big. At the time of writing, it alone stands out in the automobile sector, where all the other companies are in a similar range. It's extremely unlikely that Ford represents the standard of the sector and all the rest of the companies are undervalued.

That could mean one of two things – Ford is in for a correction at some point in the future, or Ford has recently made some moves or announcements that make it deserve the high ratio. The first step you should take is to look over financial reports and compare profit margins between the different auto companies. You'll also want to look for any news you can find about Ford in recent months.

It could be something as simple as a stock split. When a company splits its shares, the amount of money invested in the company stays the same but the number of shares changes. Splits can work in both directions. Companies can use splits to inflate or deflate price to earnings or earnings per share ratios.

In general, if the price to earnings ratio appears excessively high or low, this can indicate that the stock is in for a correction in the coming months. If it's excessively high this is an overvalued stock, and the price of the stock might be set to drop in the coming weeks. We would expect it to drop until it reaches a more appropriate level for its sector. On the other hand if its low and the company fundamentals look good, that can be a sign that the company is poised for gains. So the price to earnings ratio can indicate that an individual stock is set to undergo a “correction”.

But keep in mind that there is no “right” or “wrong” price to earnings ratio. As we explained above, you will have to look at companies in the same sector to get an idea of how a given company compares to it’s competitors. Obviously you don’t want to compare a bank to an auto company or to a social media company. Also make sure you are really comparing the same measurement. A good one to look at is TTM. This means *trailing twelve months*. You will also see past-looking and forward-looking price to earnings ratios. I prefer to avoid forward looking and stick to the TTM value. To get a feel of how different they are from sector to sector, since we’ve already looked at automobile companies, let’s compare that to some other industries.

Let’s look at a younger and growing sector, social media companies. Looking at Twitter, we find that the P/E (TTM) ratio is 20.61. This is actually considered a pretty average price to earnings ratio. Looking at Facebook, the price to earnings ratio is a bit higher, checking in at 28.58. That’s almost 42% higher than Twitter, but given the more successful financials that Facebook has, it’s probably justified.

Now let’s look at a newer company, such as SNAP. In this case, there isn’t any price to earnings ratio given. That means SNAP is not profitable. Since it’s a young and growing company, that’s not really relevant, at least not yet. Investors are going to want to see results at some point – but for now they are relatively patient. Tesla is another example of a relatively young company that is poised for rapid growth – it has yet to have positive earnings.

Searching for some more social media companies, we find one that is way out of whack. YELP is sometimes considered a social media company, and its P/E ratio is 49.89. This is much higher than what we’ve seen so far. YELP is a popular website to be sure, but it doesn’t seem to have any fundamentals to justify a price to earnings ratio that high. That could mean it's in for a price correction in the coming months.

We can also find examples on the other extreme. Weibo corporation has a P/E ratio of 15, which is comparably low.

You can also look at closely related companies that are similar, but not necessarily in the same exact sector. Microsoft is a technology company and they own Linked-In, so that seems like a good candidate. Their P/E ratio is 30 – about the same as Facebook.

With these values in mind, Weibo might be a hidden opportunity. Before deciding, however, you'd want to look at the company financials and read what analysts are saying about it. Something a swing trader should always keep in mind is that looking at a single metric should not drive your decision making. You need to find confirmation elsewhere.

The point of looking at price to earnings ratio is that it's a starting point for further research.

Social media is a new and growing sector. It's interesting to look at another more slowly moving sector such as banking. Here is what we find:

- Wells Fargo: 10.24
- Bank of America: 10.4
- Citigroup: 9.81
- JP Morgan Chase: 11.72

Notice how they are all clustered around the same value. If you are looking at stocks in the banking sector, any stock that had a price to earnings ratio that fell outside of the range 9-11 would be very suspect, possibly representing an opportunity to look at for a future price swing.

Open Interest, Volume, Short interest and Put to Call Ratios

Looking at options, open interest, volume and short interest are some of the factors to consider. These can also help you determine where traders expect prices to go. There aren't absolute numbers that can be used as a guideline, everything is relative.

Open interest tells you the number of options contracts for a given strike price and expiration date. Options traders seek out a minimum of 100, because this indicates enough liquidity that you can quickly get out of a trade. When you find strike prices with higher levels of open interest, these are probably price levels where expert traders are expecting the stock to go in the near future. You will want to compare open interest numbers for calls and puts on the stock. Calls are bets that the stock is going to rise in price, while puts are bets that the stock is going to decline in price.

Volume tells you the number of trades that happened on the most recent trading day. This also gives you an indication of the level of interest in the strike price – where people thing the stock price may be heading.

You can also take a look at *short interest*, and also the put to call ratio for options related to a stock. Short interest tells you how many investors are shorting the stock. If this number is high, that indicates that the investing community is expecting a stock price to decline in the near future.

This information is also communicated by the put to call ratio for options related to the stock. Investors who think that a stock price is going to decline are going to invest in put options. If the put to call ratio is excessive, then that can reflect an expectation of coming price declines in the stock. You can compare the value you find for a given company to similar companies in the same sector. It's also good to check the put to call ratios for SPY, which tracks the S & P 500, for a rough comparison. That will give you an indication of what investors are expecting for the market as a whole. Note that options all have different strike prices, so you will want to check the put to call ratios for different strike prices.

Futures and after hours trading

You can look at futures and after-hours trading to see how a stock is moving as a leading indicator, that might help you decide when to enter or exit a position. For futures, S & P 500 and other index futures can indicate the overall direction of the market. For individual stocks you might look at after hours trading especially after a late earnings report. This can help you determine when to enter your next trade.

Fundamental Analysis for Forex

Fundamental analysis can also play an important role for Forex traders, especially if you are holding your positions for longer periods. The types of fundamental analysis you are going to use will primarily revolve around macroeconomic factors, political factors, and trade. You are going to want to keep a close eye on GDP growth, jobs and unemployment, and trade issues that can impact currencies. Political factors at home and abroad can also weaken or strengthen a currency.

As we stated in the introductory remarks for the chapter, the strength of any given currency can't be decided in isolation. Rather, you need to look for relative comparisons. You'll also want to study past relationships between currencies to understand how they have changed historically in response to changing circumstances. The U.S. economy always looms large, but Japan and Europe are important too.

Chapter 6: Technical Analysis (Price Action)

Fundamental analysis is important, and it plays a central role in the analysis of buy-and-hold and dividend investors. Its also important for swing traders to determine the health of a company you are thinking of investing in. However, the main tools of trade for the swing trader center around technical analysis and reading charts. Over the course of days, you are interested in spotting trends, changes to trends, and price boundaries for stocks. There are several tools used to do this but one of the most important tools in the industry goes by the name "candlesticks". These are colored markers on stock charts, and they can be displayed for any time frame of interest. For example a day trader may look at 1 minute, 5 minute, 1 hour, or 4 hour candlesticks. As a swing trader you're probably more interested in looking at daily candlesticks and then following trends as they develop over days and weeks. In either case, candlesticks work the same and the same rules apply. Please note that while we will often refer to "stock" in our discussion, candlesticks are used in any investment context such as with Forex.

Swing traders are going to make money on price swings, as the name implies. Trading strong trends is one way that swing traders can handsomely profit. However, you can also profit when a security is trading in a range of prices, that is bouncing up and down between two price levels and not seeming able to break out. Profits are still to be made as the price fluctuates up and down, although you may be making larger profits when trading trends. In fact most swing traders look to trade trends for this reason. Some traders will do both, trading ranges as a matter of course and trading trends when the opportunities present themselves. In this chapter we are going to look at some tools that help you spot reversals, which are important for looking at entry and exit points for a trade. We will also discuss more about trends at the end of the chapter.

Price Action

Price action is a simpler, mainly visually oriented approach to technical analysis. Price action indicators include looking for trends, familiar chart patterns, levels of support and resistance, and other chart signals to determine when to enter and exit trades. Basically, you make your trading decisions, when to buy and sell, based on the price movements of the stock that you're seeing. Many of the indicators that are used in price action trading are visual, and include the use of candlesticks or chart patterns. Other indicators used are checking basic data such as trading volume. Some traders are only price action traders. Others use more technical analysis indicators like moving average and other mathematically based tools that we discuss in the next chapter, and still others use a combination of the two methods.

Price action traders will look for breakouts. A stock might trade within a range for a long time, and then suddenly move up out of the range. For example it might be trading between $100 and $120 a share for 25-40 days. Then when a trader sees the stock price rise to $125, that could be a signal of a coming breakout into an upward trend. The trader may take the price change into consideration with multiple indicators like what the candlesticks are saying along with trading volume. A high trading volume could indicate a lot of excitement building for the stock, which could indicate future price increases.

Price action trading doesn't require as much time put into research, and many price action traders completely ignore things like fundamental analysis. Once you familiarize yourself with candlesticks, price bars and chart patterns, that may be all you need to decide when to enter and exit trades.

Part of what price action traders look for are trends, and ranges.

Trends and ranges

Trends are long term movements of a stock in one direction or the other. You may see a trend or you may not depending on what kind of time frame you are looking at. As a swing trader, you need to pick out the time frame you are most comfortable with, be it a few days or a few weeks, and then look for trends within those time frames for the securities that you are interested in.

Inside any trend, there are going to be shorter term fluctuations. If investors are bullish on a stock, the trend may be moving up slowly and it may be unstoppable, at least for now. The upward trend may be clear over the course of a week or more, but on any given day you might not see the trend. If the trend is steeper, indicating stronger investor interest, then you may spot the trend on shorter time frames as well.

An upward trend means investors want to get in on the stock, and they believe its undervalued. You can double check their interpretation of the situation by looking at company fundamentals like price to earnings ratio. On the other hand, a trend may be downward if the future prospects of the company are not good, or investors believe the stock is overvalued.

Sometimes you will see sideways moves. A stock may see a peak value, indicated by a "hill" followed by a small drop, and then it remains in a sideways area for a long time. Stocks are moving sideways when they don't move particularly strongly in one direction or the other. This is often referred to as a range, or we might say the stock is "boxed in". Of course any range is not a flat line. Instead, you are going to see the stock bouncing around an average price, rising a little bit but not too high, and then dropping back down again, but quickly reversing course. Neither the bears or the bulls have control.

A sideways action can be an opportunity to take advantage of small price moves to make small profits, however it can also be a dangerous zone to be in. Many times if a high price drops a bit and is followed by a sideways movement, then the stock may end up entering a major downturn. When you see sideways movements you always want to check your indicators, including all of the tools we discuss in this chapter.

It's also possible for the stock to be sideways, but then break to the upside. In the following sections, we will describe candles that can be very helpful in estimating when such a breakout is going to happen, and which direction it might move.

Causes of Price Action

Movements of price in the stock market boil down to basic economics. When there is a larger number of buyers, and people are excited by the stock, sellers can demand higher prices. You can find out what's going on by examining the bid and ask prices for any financial security, including stocks. The bid is the current price that investors are willing to pay or offering for the stock. The Ask is the asking price. When a stock is rising in price the Ask is going to be higher than the bid and vice versa. When a stock is rising, a seller can ask for a higher price and wait it out, waiting for a buyer to finally agree to the price. More buyers means prices are going to rise.

When there is lower demand, when bad news comes out or people simply think a stock is overvalued, then prices drop. So you have a situation of increased supply and reduced demand, and what that really means is that there is reduced demand at the price that people are asking. Unless there has been a catastrophic event, there is always demand for something – but the question is at what price are people willing to pay in order to own the asset?

Herd mentality often takes over with stock markets, driving trends to ridiculous highs or ridiculous lows. When people are suffering from "irrational exuberance", the prices of a financial asset can be driven sky high. This happened in the 1600s in the Netherlands when people began trading tulip bulbs, as if this was something of financial value. It led to a mania where the prices of tulip bulbs skyrocketed, and people were getting rich by buying and selling tulip bulbs. But as you might guess, the herd mentality and exuberance eventually wore off and the fake market collapsed. While many people had become rich in the interim, a lot of people ended up losing everything, because they were the ones holding the bag when the entire situation came to a halt.

Of course with stocks, there is real value underlying the financial instruments being traded, the ownership stakes in the companies themselves. That said, there are times when irrational exuberance will inflate stock prices. One signal to look for is unusually high trading volume, and a steep increase in the curve on the stock charts. You can avoid falling prey to this problem by not letting greed dictate your trades. Always have set entry and exit points so that although you might be forgoing certain unrealized profits, you will get out before there is a big crash, if one is coming.

This can work in the opposite direction as well. Its more than possible that panic will set in, and it often does. A professional trader always has stop loss orders in place. That way their trades are not governed by panic, they get out of the trade when its not worth it to be in the trade anymore. This is better than following the herd over the cliff. People who trade emotionally usually stay in their positions too long, clinging to hope that the trade will reverse. By the time they come to the realization that its not going to, at least not anytime soon, the stock is priced well below their original investment.

Later we will show a graph of a counter trend, which is simply a move against the overall trend. Pay attention to the strength of counter trends. If they are growing in strength over time, or there is a particularly strong one in the midst of a long upward or downward trend, the counter trend could indicate a coming reversal. You will want to confirm looking at your candlesticks or indicators, but looking for counter-trends is easy and it's often the first signal that change is coming. Boxes and ranges can often indicate that a change in direction one way or the other is coming. Tesla provides a nice example of some of the things we have been talking about. On the left side of the chart, we note that there was a hill or bump in price, and then price dropped a bit leading to a long term zone of sideways movement. But, that sideways movement was followed by a break toward a lower stock price.

After we have finished this chapter, you will want to study charts like these and see if you can spot the signals of coming trends, in the middle of the charts. Here is how it would have looked on March 8.

This also shows the importance of keeping up with financial news. Although there is a downward trend toward the right of the graph, do you think it's a counter trend, just a temporary interruption of a sideways move, or do we see the possibility of a coming reversal or breakout to the upside? Notice the bars along the bottom of the chart. These represent trading volume. Something to notice is the downward trend at the far right of the chart shows a big increase in volume. That indicates a lot of traders were figuring now was the time to get out of Tesla, and the chart we looked at earlier proved them right. Volume is one of the things you should look at when trying to determine the strength of trends.

Price Bars

The first thing you might consider are price bars, which show you how the price of a financial security changed over a given time period. When you add price bars to a chart, the color of the bar will indicate whether prices rose over the trading period indicated by the bar, or whether they fell during the trading period indicated by the bar. Falling prices are indicated by red bars, rising prices are indicated by green bars. The length of the bar is important as well, with the top of a green bar telling you the highest price and the bottom of the bar telling you the lowest price. For red bars, it's the opposite with the top of the bar representing the opening price, and the bottom of the bar representing the closing price. Horizontal ticks or lines on the bars represent high and low prices for the day. This is an example of a stock chart with price bars.

Most traders actually use candlesticks, which are pretty similar both in the information they provide as well as in ways to use bars to interpret coming changes in trends. Therefore we will introduce candlesticks and then look at important patterns that indicate changing trends in pricing.

Basics of Candlesticks

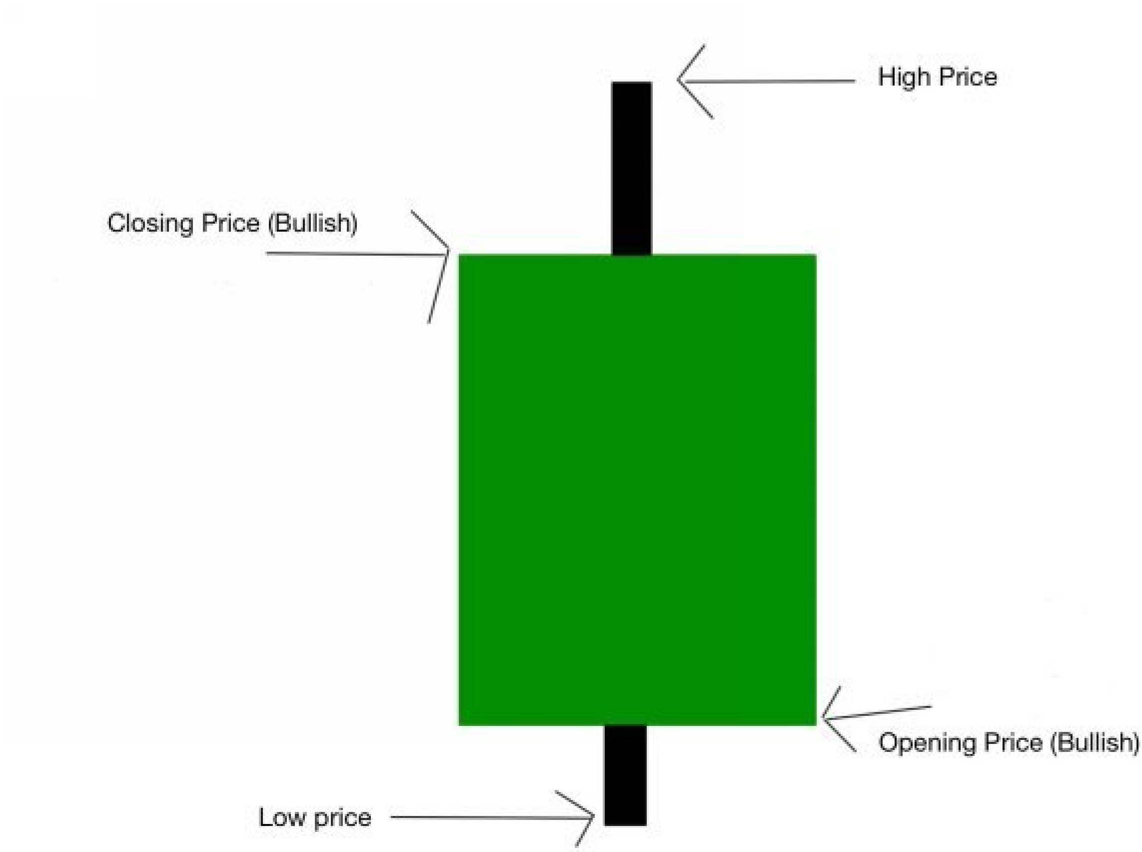
A candlestick tells you the range of prices and open and closing prices for a given time period – and they also tell you whether or not the trading was bearish or bullish for the given time period. That is, if investors were buying and pushing up prices, or if they were selling off.

Bullish candlesticks are colored green, while bearish candlesticks are colored red. The color designations allow you to see at a glance whether or not traders were buying up or selling off the security over the given time period.

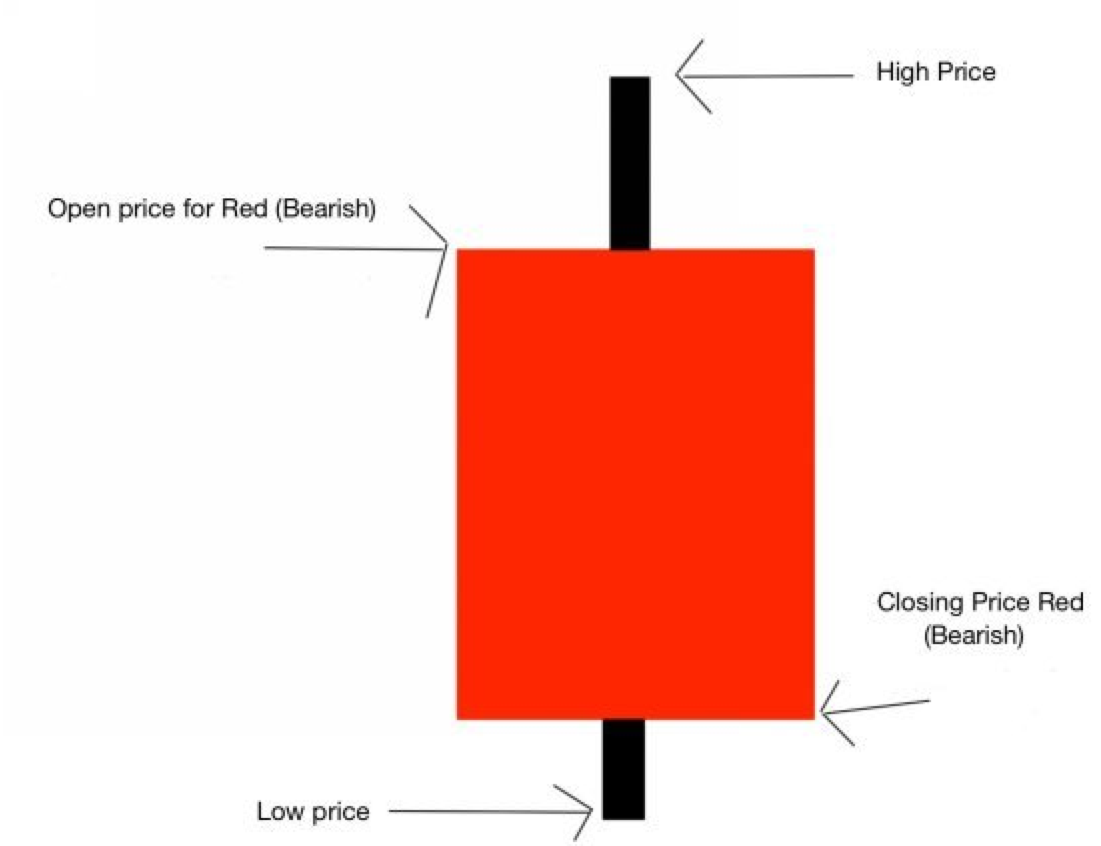
A candlestick has a thick, colored body. Whether or not the color is green or red changes the meanings of the top and bottom of the body. If it's a green, and therefore bullish candlestick, that means that the stock closed at a higher price than it opened, for the given period. Remember that the period can be different lengths of time, so if the candlestick is a five minute candlestick, the open reflects the price at the beginning of the five minute period, while the close represents the price at the end of the five minute period. If the candlestick is a daily candlestick, then the prices are the true opening and closing prices for that trading day.

For a green, or bullish candlestick, the top of the candlestick is the closing price. The bottom of the candlestick is the opening price. For a red, or bearish candlestick, the top of the candlestick is the opening price, and the bottom of the candlestick is the closing price. That reflects the fact that the price dropped over the trading period.

Each candlestick may have wicks or shadows extending out of the top and bottom of the body. The top wick is the high price for the period of interest. Sometimes the high price is going to go well above the opening and closing prices, but at other times it will only coincide with either the closing price or the opening price. The same applies in the other direction, and the bottom wick represents the low price for the time period.



For example, if a candlestick is red or bearish, it could have a long wick on the top, which indicates that bulls pushed the stock price up during the time period. However, the stock still closed at a lower price, and so the bears won out over the time period. Or put another way, for part of the time period investors were buying up the stock, but in the end there were more sellers than buyers, leading to a lower closing price.



Engulfing Candlesticks

At this point you should already noticed the candlesticks provide a great deal of information when it comes to analyzing the market. The candlestick color indicates overall investor sentiment. You can also get a gauge on the investor sentiment from how the high and low price went and how the closing and opening prices went. However by comparing one candle stick to the previous candlesticks to its left, which therefore represent earlier time periods, we can see what the trend is doing. The most important thing to look for in candlesticks is whether or not the trend is entering a reversal. A reversal can be an indication that it's time to sell off the stock, or if it's bottoming out and you see a reversal, it could be a time to enter a trade, in anticipation of coming gains.

Most important candles in this regard is the engulfing candle. What this simply means is that you see a candle that is much larger than the candles to its left. Particular we are interested in a change of color when seeing and engulfing candle. This can indicate that the investor sentiment has changed. So if you see a small red candle followed by a large green candle, that could indicate that there was been a shift from selling off to buying the stock. Conversely, if you see a green candle followed by a much larger red candle, that could indicate a Cumming downturn. What it tells you is that investors have shifted from buying up the stock to selling it off.

It's important to realize that while these candlesticks are good indicators, they are not fortunetellers. Therefore you shouldn't take them as an exact predictions and before entering a trade or exiting a trade, you should look at other indicators besides the candlesticks. That said, knowing the candlesticks and what they mean is a very important part of technical analysis. In the image below we see an engulfing candlestick. This took place at the bottom of a downturn in the stock. It was followed by an upturn as you can see in the image. In short, the engulfing candle indicated a coming change in trend.

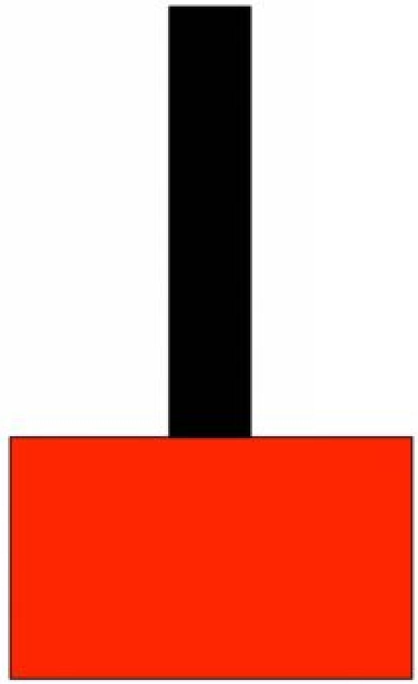
Notice the green candle which is circled has a much larger body than the red candle that preceded it a day earlier – indicating that the stock opened relatively low and rose quite a bit during the day. This was followed by an uptrend in the stock price.

This works the other way too, as the image below shows. When you see a red candle that engulfs a previous green candle, or that is a bearish candle that engulfs a bullish candle that happened the day before, that is a strong indicator for a change in trend, to the downside.

In this particular example, there are two large red or bearish candlesticks in a row, indicating a strong downward trend.

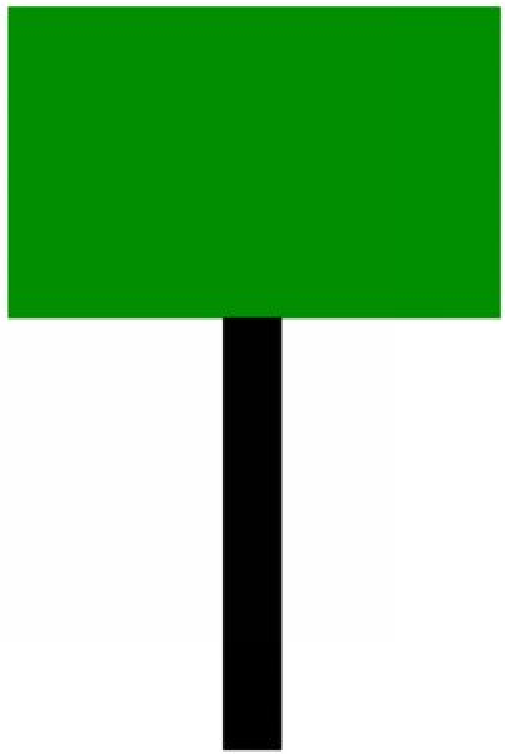
Shooting Stars

Another signal that can happen at the top of an uptrend is a shooting star. This is a red or bearish candlestick with a long wick shooting upward. The long wick that shoots upward indicates that the price during the day reached a very high level, but by the end of the trading day investor sentiment had become negative, so much so that the price dropped and ended up lower than the opening price for the day. This can indicate a coming trend reversal toward a lower stock price.



If the body is green (bullish) and the candlestick occurs at the bottom of a downtrend, its known as an inverted hammer. An inverted hammer is a different kind of signal, because it means that while the price reached a high during the day and it closed lower than the high, it still closed at a higher price than it opened for that trading period.

A hammer at the bottom of a downtrend is taken as a signal indicating a coming reversal to an uptrend. This is a bullish or green candlestick, with an extreme low price for the day or time period, but the sell off was temporary and not enough to overwhelm the bulls. So the stock ended up closing at a higher price than it opened at even though there was this sell off at some point.



A hammer by itself is not an indication that you should buy the stock. You need to look for a confirmation from another indicator such as a moving average crossing, or you can wait for the next days trading to see if there is a second bullish candle indicating a genuine uptrend.

Harami Patterns

Sometimes, when you are at the bottom or top of a trend, a simple change in candlestick color without engulfing can be a signal of a changing trend. This is called a Harami pattern. For a Harami bullish trend, you are going to want to look for two bullish candlesticks in a row. The next example shows a nice Harami bullish signal. Although the red or bearish candlestick has a larger body than the succeeding bullish (green) candlestick, the change in investor sentiment at the bottom of the downtrend has to be noted. This was followed by a very large bullish candlestick, which indicates that the closing price went up much higher than the opening price for the day. This was indeed followed by an uptrend.

You can also look for bearish Harami signal at the top of an uptrend. Again, it needs to be confirmed by a follow-on bearish candlestick, but when you see a bullish candlestick followed by a bearish one at the top of an uptrend, that can be taken to be a sign of a trend reversal. A second bearish candlestick will confirm it, or a crossing of the moving averages.

Piercing Lines

First lets take a look at a bullish piercing line, which is something you will be looking for in a downtrend. What you are going to look for is a bearish candle followed by a bullish candle, but the opening price for the bullish candle is lower than the closing price of the previous day. Then, however, the closing price of the bullish candle ends up higher, above the mid line of the previous bearish candle. This is a very strong indicator of changing investor sentiment and a coming upward trend in prices. You can get confirmation but many traders will not require confirmation if they see this signal. In the bullish piercing line below, the opening price in the bullish candlestick was lower than the previous closing price, but the price rallied to close higher. This was followed by a solid uptrend in the price.

A bearish piercing pattern is the opposite, you will see a green candlestick followed by a red candlestick, that is positioned above the mid line of the bullish candlestick, indicating a higher opening price. However, during the day the stock was not able to keep rallying and there was a drop in price, indicating a coming downturn.

Dark Cover

In Bearish Dark Cloud cover, the stock will be trending upward. At some point along the trend you'll see a bullish candlestick with a long body, indicating that the price rallied and closed a lot higher than the opening. But then the following time period you'll see a red or bearish candlestick, and it will have an opening price that was higher than the previous time periods closing price, but during the day or time period a selloff begins and it ends up closing lower. This is a strong indicator that the uptrend is coming to an end, and its time to sell your shares.

Doji Stars

Investors also look for Doji star patterns, which occur with a three candlestick formation at the top or bottom of a trend and including a doji. At the bottom of a trend it will be a bearish candlestick followed by a doji, and then a bullish candlestick. The candlestick in the middle will have a very narrow body with long wicks extending above and below, indicating that overall for the day the share price opened and closed at about the same level, but there was a lot of activity during the trading day pushing the stock up high but also down low. A candlestick with long wicks but the same or very close opening and closing prices is called a doji. If this is followed by a bullish/green candlestick at the bottom of a downtrend, its taken as a strong signal of a coming uptrend and is a good point to buy shares.

This pattern can also happen at the top of an uptrend. In this case, you will have a green or bullish candlestick, followed by a doji. That means that again, prices were pushed high and low during the day, but it closed at the opening price or very close to it. Then if this is followed by a bearish candlestick, its taken as a signal that the stock price is about to turn downward.

Three White Soldiers

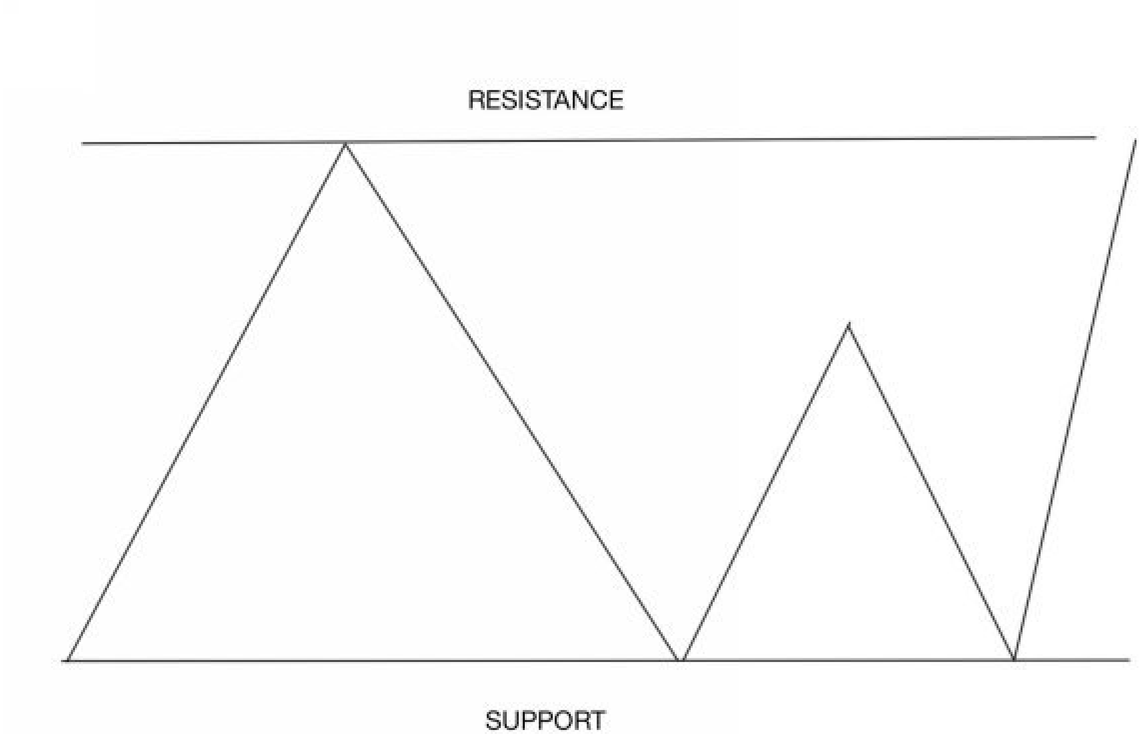
This is a candlestick pattern where you see three bullish candlesticks in a row, indicating a coming upward trend in price.

Support and Resistance

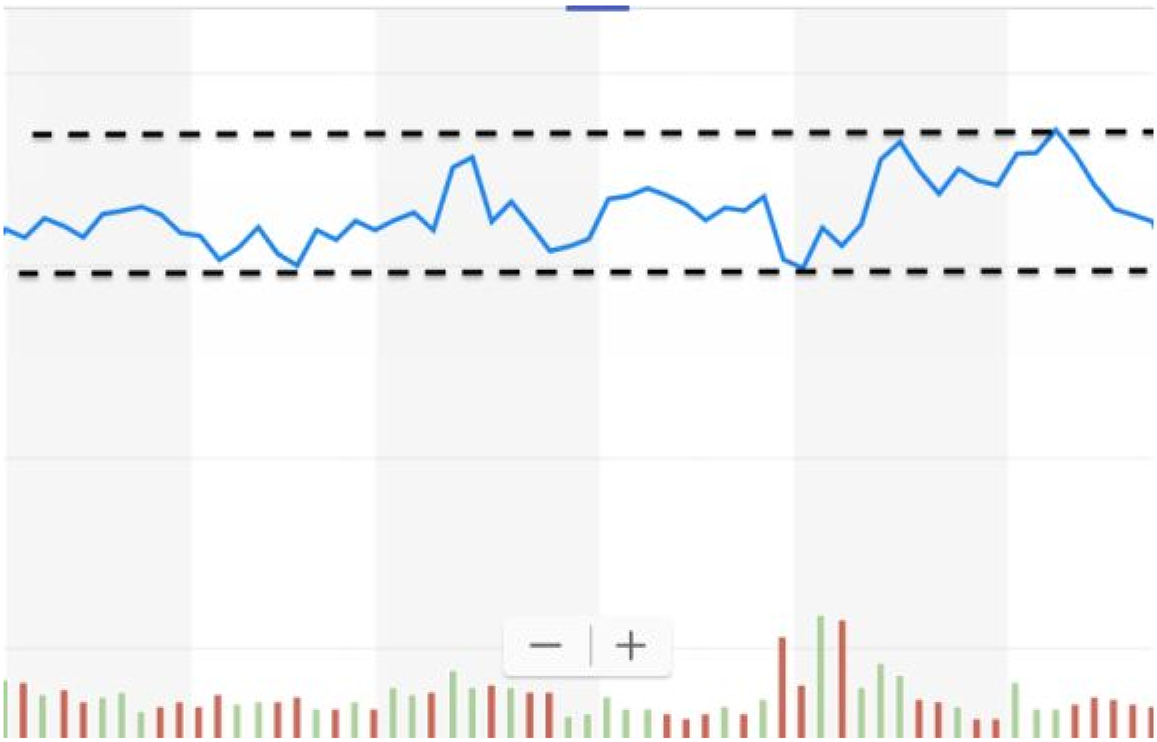
Now we leave candlesticks aside for awhile, and look toward different things to look for in stock charts themselves. Let's review support and resistance, which are important in other price action strategies. The first thing to look for is support. This is a low pricing level that the stock doesn't seem to drop below for an extended period of time. You are going to see the stock bounce off the support price level but never or barely go below it, so the stock might have a zig-zag kind of pattern.

Likewise, the stock will have a level of “resistance” that it cannot cross when increasing in price. So this is a high price level that the stock will flirt with but seemingly be unable to cross.

The stock chart might have a general appearance like this:



Here is a real example, where for a time Netflix was “boxed in” between two share pricing levels:



While profit opportunities may not be as large, support and resistance represent important pieces of information. For example, you might enter a trade just as it comes off the support pricing level, with a goal to sell when the stock approaches the resistance price level. While it may not be the highest profit you could make on the stock, its still a profit opportunity.

The importance of triggers

Support and resistance also offer opportunities to set triggers. What we mean is you are going to want to enter into trades with per-defined entry and exit points that you make real by placing limit orders. If you aren't familiar with this concept, a limit order is an order to buy or sell shares that only happens if the market price matches the price you specify in the limit order. You can pair orders together in a "one order cancels the other" fashion, so that if one of your limit orders is executed the other one gets canceled. So you will want a limit order to sell the shares if the price drops too low to prevent losses, and you will want a limit order to sell and take profits if the price reaches a certain high point.

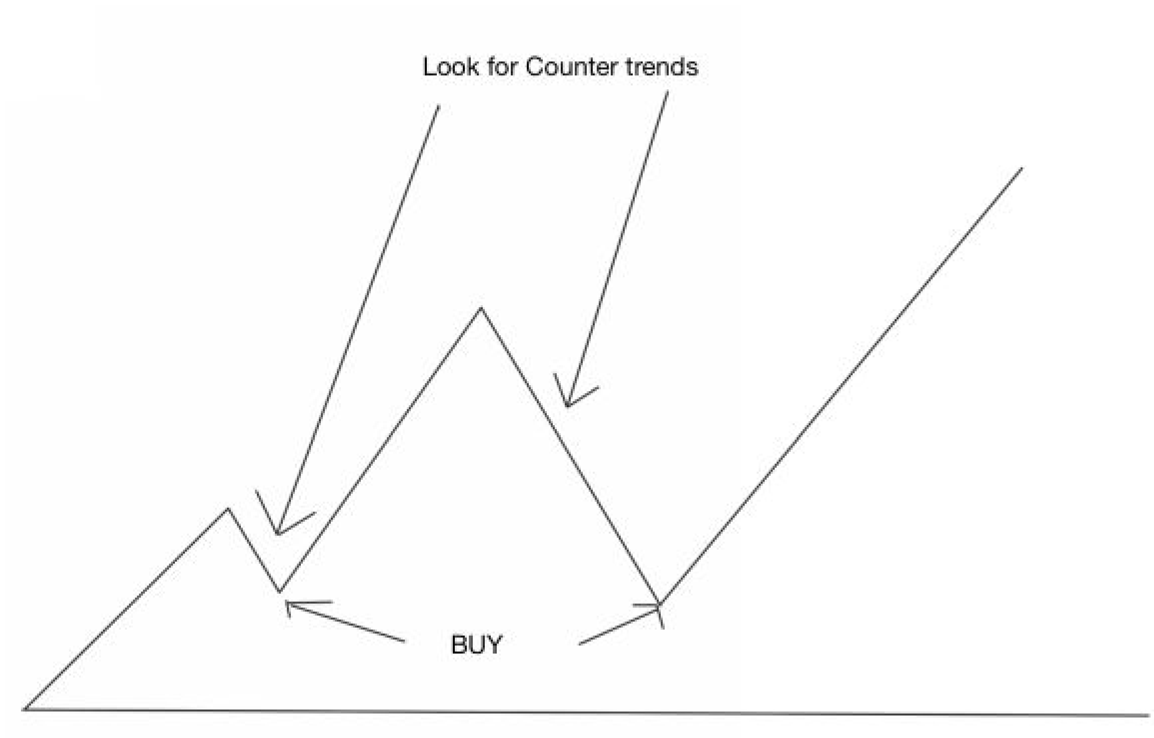
Support and resistance can help guide your decisions in where to place these orders. For example, in the Netflix chart above, the bottom line of support is $345.73 a share. We could place a stop-loss order slightly below the level of support, so we would put a limit order to sell our shares after we enter the trade at say $344.50. If the price drops to that level or below that, the trade would automatically execute and that would mean we'd be closing our position. But the purpose of doing this is to prevent ourselves from getting in a situation where we are taking too much risk, and possibly losing a large amount of money.

To ensure that you get profits, you should set a per-defined goal, and place a limit order to sell your shares if and when that point is reached. This helps you avoid getting into a problem of being overwhelmed by greed, a situation that has destroyed many traders. If you start hoping for too much profit in individual trades, you are just as likely to see yourself waiting too long to exit, which means you'll be in a situation where the stock drops off and you end up not realizing any profits at all. Its better to treat your trading as a business and set specific, realizable goals. If a stock is showing a level of resistance, that is one indicator you can use. In this case, the Netflix stock was topping out at $383 a share. So we could set our limit order a little bit below that, say $382.50. If we had recognized this pattern in the chart as it was forming, we would have realized that when the stock was around $345 a share it was a good time to buy. Entering into the trade, say with 50 shares, it would have cost $17,250 to buy the shares. A limit order to sell at $382.50 would have gotten us $$19,125, and we'd profit $1,875 from the trade less commissions.

This Tesla chart shows the value of placing a stop loss order. The earlier part of the chart could have indicated a situation similar to that with Netflix, where it would have a level of support. However you see there is a break toward the downside with share prices dropping from $273 all the way down to $178. If we are disciplined traders, we would have sold early avoiding the downside. However, if we were emotional traders hoping for a turn around, you might have been stick with your shares when it dropped into the $178 range, and faced big losses.

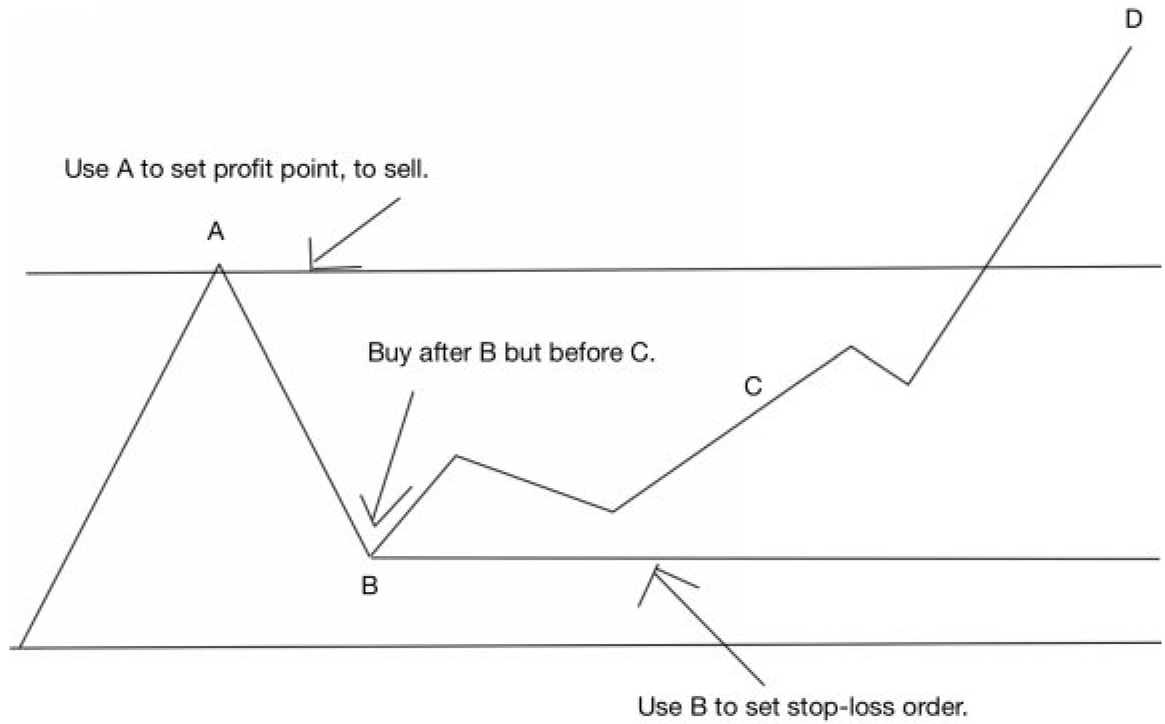
Watch for Counter Trends

A counter trend is an opposing move that is a part of an overall, larger trend in one direction. For example, a stock of successful and growing tech company is going to spend a lot of time moving upward. As part of that larger upward trend, there will be counter-trends that temporarily move in the opposite direction. Counter trends can represent buying opportunities.



ABCD Patterns

The so-called A-B-C-D chart pattern indicates a breakout to higher price levels. The stock rises to an initial high at point A, which is followed by a counter-trend to point B. The price level A represents the 'breakout' price that the trader expects to either represent the high price point or a coming marker for higher prices. The point B is taken as the risk level or new level of support. After reaching point B, the stock will rise a little and show a slower uptrend along C, until it eventually reaches a new high at D. The trader will use point A as the guideline that can determine where to set a limit order to sell and take profits.



Trading Volume

Trading volume is an important indicator, as we mentioned earlier. One of the first things you will need to do when considering volume is to determine what the historical trading volume for a stock is. The word historical should be considered carefully, as historical doesn't necessarily mean you take the all time average or go back 20 years ago. Historical trading volume that is more relevant is how has it been going recently. If you start to see a large increase in trading volume coupled with a trend reversal, that could be a signal that more trend reversal is coming. Whenever you see other signals, such as candlestick indicators that are coupled with increased volume, that should reinforce your confidence in a trading situation.

Retracements vs. Reversals

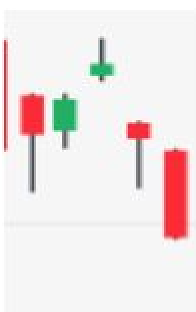
One of the most important things that new swing traders need to become conscious of are retracements. These are small counter trends that can look like trend reversals over the short term, but they are not real reversals. Rather, they are small random blips in the midst of a solid trend that is continuing one direction or the other. They key to recognizing a retracement as compared to a genuine reversal, and its not easy, is to look for the share price breaking through previous levels of support if we are looking for a new downward trend, or resistance if we are looking to identify a new upward trend. This chart showing SPY, which tracks the S & P 500, is a good example. For most of 2018 SPY showed a steady upward trend. Retracements are indicated by the dotted arrows. These were short term counter trends that were not interrupting the inexorable upward trend. Toward the end of the year, we see a massive downshift, that broke levels of support. That is indicated by the dotted oval in the chart. This was followed by a genuine downward trend. Note the rise in trading volume indicated by the vertical bars at the bottom of the chart.

You will notice that another signal is present toward the right side of the chart. While SPY seemed to enter a sideways area for a time, there is another red candle with an extremely large body, which of course was followed by plummeting share prices.

Even professional traders have difficulty distinguishing between a retracement and a real change in trend that would qualify as a reversal, but you should spend time studying charts so that you can begin to recognize retracements more often than not.

Pin bars and price rejection

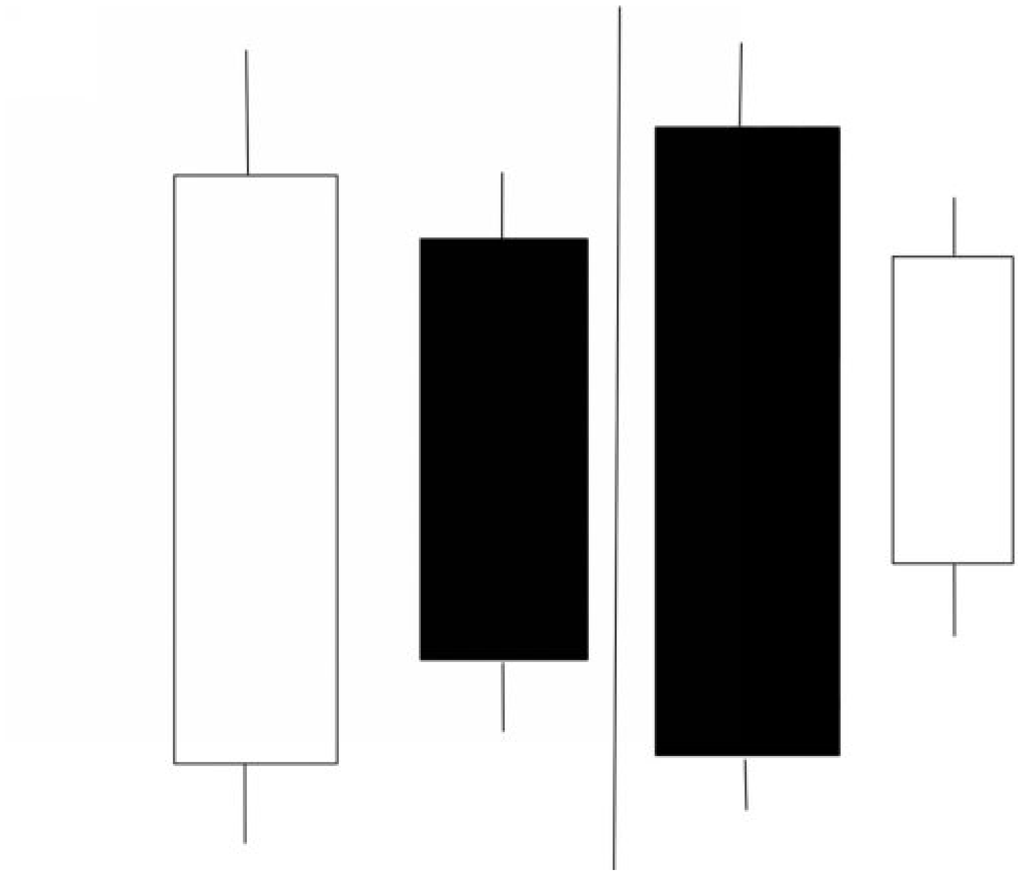
One thing to look for at (what may be) the peak of upward trends or (what may be) the bottom of a downward trend is a pin bar. This is a narrow bodied candlestick with a long wick sticking out in one direction or the other. When a candlestick has a long wick, that means either the low or high price was way out of proportion to the open and closing prices – and so was rejected. A high price that is rejected at the top of an upturn can indicate a coming reversal. In the snapshot below, the green or bullish candle in the middle has a high price that went well above the closing price, and you can see this was followed by two bearish candlesticks (two days of declining prices). This could be taken as a sell signal, or a buy signal if you were shorting the stock.



At the bottom of an uptrend, when you see a low price that was rejected, that is the candle ended up with a much higher closing price, it could be a buy signal for bullish investors. Of course, you should always protect yourself by utilizing a stop loss order. In the event that you are wrong, you can put the stop loss order at slightly below the most recent low, to prevent your trade from being caught up in a renewed downward trend.

Inside Bars

Another price action strategy is to look for inside bars. This is when a long bar is followed by a smaller bar that would completely fit inside the previous bar, but it's the opposite type. So its kind of like the reverse of an engulfing patter. Forex traders in particular like trading inside bars. They can represent a coming breakout.



In the image above, on the left we have a bullish bar followed by a smaller bearish candlestick, while on the right side we see the opposite situation, a bearish bar followed by a smaller bullish bar. If either of these are seen in part of a trending market, they can be taken as a signal of a coming breakout. When occurring in or near a level of support or resistance, the pattern can indicate a coming trend reversal. You should confirm this type of signal with other indicators.

Time Frames for Swing Traders – Again

It's important that you not get too deep into the forest for the sake of looking at trees. As a swing trader be careful about over analyzing and looking at time frames that are too small to be relevant to the types of trades that swing traders are going to make. If you are utilizing price bars or candles, going with a 1-day time frame for the candles is the most reasonable way to do your analysis. Look for zones of support and resistance on time frames of days and weeks, but avoid falling into the trap of zooming in to see smaller time scales. These are simply not that relevant to the swing trader in most cases. You will find at times that looking at different time scales can help you "zoom in" on true support levels, but in most cases the added information is not going to be significant enough to matter.

Determining Key Levels

You can eyeball a chart and estimate where the price fails to break above or fall below, that part is easy enough. However, how can you be sure that a certain price level is really support or resistance?

When it comes to trading, you can never be 100% sure of anything and can only play to increase your odds. One principle you can apply here to increase the odds that an apparent level of support or resistance is real is to require that at minimum, the price touches the level at least two times. Three times is better, and it can help to widen your time window to see if the price has been in this area before, and what happened. You'll also want to look for pin bars near zones of support and resistance. Is the price touching the support or resistance level with the end of a long wick, or are open and close prices near the level? The latter can be a stronger signal.

Use chart styles that work for you

Study candles or price bars, but if a line chart makes it easier for you to spot trends, then go with that type of chart for most of your analysis. This works better for swing traders who are playing on weekly and monthly time scales. In those cases, the high and low of the day is less important than the overall movement in price.

Don't get in late on a trend

Everyone has some common sense about the stock market, after a long rally its probably not the best time to start buying lots of shares, since its more likely than not a "correction" is in the offing. The same holds true for trends. If a strong trend has been continuing for several weeks or even months, that is probably not the best time for a swing trader to load up on shares. While its true the trend may continue, the odds are starting to work against you at that point. Getting on board with a trend when its just forming is the best time, but of course identifying real trends early is something that takes a lot of experience and skill, and no trader is going to be successful at it all the time.

Since its often hard to identify a real trend, trading ranges can be more profitable for the disciplined trader. You can enter and exit multiple trades while trading ranges, and although you make a smaller amount of profit on each individual trade, when you can trade multiple times the profits can add up to be as much as you might get trading with a strong trend. A swing trader is going to have more success trading both ranges and trends, rather than only following big trends.

When trading ranges, there is always the risk of a breakout that occurs and you miss the signals. Suppose that there is a breakout to the upside. If the stock has been trading between $80-$100 for several weeks, you might buy at $80 a share and have a limit order to sell at $79.50. The order could execute and then the stock could rise to $110 or $120 a share, leaving you missing out on huge profits. Of course hindsight is always 20/20.

On the other hand, maybe the stock ends up moving the other direction, and finds a new level of support at $70. That is why its always important to have stop-loss orders in place. You don't want to be in a situation when you are out golfing or at a doctors appointment and the price suddenly drops and you don't find out until later. If you had a stop loss order in place, fine. If not then the losses could really take out a chunk and if you are trading on margin, get you in trouble with the broker as well.

One important way to deal with all the ifs, and, and buts when it comes to these issues is to decide what kind of trader you want to be and stick with it. You will have to live with the consequences, but that's life. So if you are more inclined to look for bigger returns – a 10% or more move in the price of a stock, and the higher the better, you might be better off focusing on trading with the trend rather than trying to be a jack of all trades. The more you focus the more you can become an expert in your little niche, and really learn how to spot true trends, and therefore earn profits from them.

Finding trends can involve the use of sophisticated indicators, so we will discuss this in the following chapter.

Using Retracements to Enter into a Trade

Retracements can actually be used to our advantage. What we want to so is to look for signals in the data that indicate the trend is about to resume.

First you want to take advantage of a drop in share price, and so wait for the stock to have lower and lower highs for three days in a row. This will often be followed by bullish candles that are bullish because they've had higher closing than opening prices, but compared to the previous day the opening and closing prices might be continuing the down trend – for the moment. The fact the candles are bullish indicates that an uptrend is probably coming. The buy signal comes when you see the first candle that has a high price for the day that is higher than the previous day. Alternatively, you can wait for the stock to have three days in a row or more with each days low price lower than the previous day. This can be taken as the low point prior to a reversal.

In the candlestick chart below, notice that there are three bearish candles in a row with declining highs. This indicates a decent entry point or buy signal.

Should Candlesticks Guide Your Trades?

It's important to keep in mind that no single tool should determine whether or not you enter or exit a trade. In the coming chapters, we are going to be learning more tools that you can use in conjunction with candlesticks and other indicators. So when you see a signal looking at the candlesticks, you'll want to confirm it using other tools before making a move.

Chapter 7: Technical Analysis (Indicators)

Many traders stop with the tools described in the last chapter, and some can be quite successful, relying to a large degree on their intuition or “gut” level understanding of the markets. However, using indicators is a more robust way to support your trading decisions and to look for entry and exit points for trades. Indicators can also be more useful when it comes to identifying stocks that are trading within a range. You can also utilize the indicators to determine what the boundaries of the range are, which can help you determine your entry and exit points for the trade, along with potential profits.

One of the first thing that beginning traders are going to notice is that there are a nearly endless number of indicators. Some are better than others, but you can end up getting lost in the forest by getting to absorbed in indicators and the various options available. The reality, however, is that piling on more and more indicators isn’t going to give you more information. So its actually better to settle on a small number of indicators that you can use to help determine your trading moves.

Another question that may strike some readers is should you absorb yourself with the details of candles and also with the detailed indicators we describe in this chapter? The answer is that’s up to you. To a certain extent its going to be a matter of taste. People who are more quantitative minded may find themselves more drawn to indicators. My personal belief is you should use both, candles provide a wealth of information and so do indicators, but you can’t really rely on one or the other individually and expect to have the best possible results. Swing trading is in part a game of probability, and by using more than one tool you can increase your odds of success. One argument for using both is that the technical indicators we will be using in this chapter provide different information than candles do, and so combining both in your analysis makes sense.

Simple Moving Averages

The first thing that you might notice when looking at a stock market chart is that it doesn't really have any resemblance to a smooth mathematical curve. Its jagged and messy, even if you can tease out trends and shapes out of the constant price changes. Wouldn't it be nice if we could eliminate the noise? And maybe that would help us zoom in on trends and possible changes in trends.

That's exactly what a moving average seeks to accomplish. A moving average is a smoothed out curve that has gotten rid of all the noise. If you have a moving average with a period of x, that moving average will sum up the prices from the previous x days, and then divide by the total number of days used in the average. It's called moving because at each day it's recalculated, so it incorporates new pricing as it moves from left to right across the chart. In the next section we'll look at more complicated moving averages that can give us better information, but for now we will stick to simple moving averages.

Most of the time, you will use a moving average based on the closing price for each time step on your chart. However, you could also use the opening price, the volume of trading, the high price for the day, the low price for the day, plus some more complicated averages that try to give you the full information for each trading day.

For example, HLC is going to include the average of the high, low, and close for each trading day. So at each day, it will calculate the HLC for the day, and then the moving average will be the averages of the HLC's calculated at each point.

This can be carried out further, using OHLC, which also includes the opening price. That way the entire pricing information for the day is incorporated into the average – you can even think about this as taking the averages of the candles, since they include this information.

However, you'll find that the curves usually match up pretty well, so simply using a closing moving average is probably going to be all you need to do. However, the beauty of these tools is that trading websites have all of them built-in, and so you don't have to worry about the mathematical details of what's behind the calculations.

More important that picking which item to track (other than volume, as swing traders we want to focus on price and try to deduce pricing trends and reversals) is the number of periods used to compute the moving average. The chart below, which shows IBM stock for the past 12 months, makes this pretty clear. The red line in the center is a 10 period simple moving average. Notice that it gives use a nice match to the actual stock prices, providing a smoothed out curve that follows the actual stock prices pretty well. Below this you see two curves – or maybe you can't make them out. One is the 50 period moving average using closing price, the other is the 50 period moving average using OHLC, showing that at least in this case, using OHLC doesn't add any additional information.

Looking for cross overs

One of the most important ways that a trader will use moving averages is to look for crossovers. In particular, you're looking for the shorter period moving average to cross above or below the longer period moving average. When this happens, it can indicate a true reversal. You can see that in the IBM chart. When the short term trend (red) crosses below the long term trend lines, the stock is in a downtrend. The relative positions of the lines don't change when there are retracements. When the short term line crosses above the long period average, then that signals an uptrend, and we see that in the chart.

Typically traders will use 20 period and 50 period moving averages, or even 200 period moving averages. Here we see a clearer picture when using the 20 and 50 period moving averages for the IBM chart:

Simple moving averages, while they can provide a lot of useful information, have one defect. That is they give equal weight to prices from long ago and to recent prices. In order to spot shorter term price trends, it can be more useful to weight the prices, giving more weight to recent priced and less weight to prices that happened in the past.

Exponential moving averages

This is what many more advanced moving averages do for you. Exponential moving averages, which weight prices to eliminate the weakness of giving equal reliance to older prices, are very popular among day traders and Forex traders. The chart below shows Apple with a 20 day and 50 day moving average. Note that both nicely follow the actual prices. More to the point, the crossovers more accurately indicate changing trends in price.

So how can this be used in practice? Traders often like to use a 50 day and a 200 day moving average to spot reversals. The charts are nice and pretty when looking back on them. Let's take a look at January 1 through February 15 for Tesla. It looked like this:

Note the cross over point – the 50 day moving average crossed below the 200 day moving average. This kind of crossover is called a "death cross". To see why, we just have to extend the Tesla chart out for the next 5 months, and we see it entered a long downturn.

When you are doing your analysis, you may want to use moving averages with different periods, but always pick a moving average with a short period and one with a long period.

Another crossing to look for when considering charts with a 50 day moving average and a 200 day moving average is called the “golden cross”. This indicates a coming uptrend. Here we see SNAP:

Zooming out to show what followed, the indicator proved correct.

Bollinger Bands

Finding points where true reversals can occur is important, but so is locating levels of support and resistance. Bollinger bands can be added to your stock charts and help you determine what these price ranges are. Note that Bollinger bands are dynamic, so each day the level of support and resistance is going to be adjusted. But this will give you a more accurate picture of what's going on rather than just relying on drawing straight lines through the charts.

Bollinger bands have three parts. The middle part is a simple moving average, by default it gives you a 20 period moving average. The upper band is 2 standard deviations above the moving average, and it helps you to identify the zone of resistance. The lower band is two standard deviations below the moving average, and so helps you identify support. Here we added Bollinger bands to the SNAP chart, keeping the exponential moving averages so that we can see the point of the golden cross. We've also denoted some interesting candles.

When you see stock prices on the edge of the Bollinger bands, that indicates that the prices are over bought or over sold, because they are one or two standard deviations from the mean. However that doesn’t mean a trend reversal is coming. On the left side of the chart, notice that two of the candles actually fall outside the Bollinger bands – and so they are more than two standard deviations away from the 20 day mean. And indeed, after that there was a short term decline in prices. However that seems to be more of a retracement. The golden cross held true and the stock has continued to climb.

If you look at the first dotted oval, you will see that the bottom candle also falls outside the range of the Bollinger bands. That would be an excellent buying point for the stock. It was followed by a strong upturn.

Don’t blindly make trading moves when you see prices fall outside the Bollinger band. Use multiple indicators to look for the trend and trade with the trend.

One thing to look for is the width of the Bollinger bands. If they get wide, that is telling you that the stock is gaining more volatility. When they are tightening, that means there is less volatility, but that can be followed by large breakouts to one side or the other.

Looking at Netflix, we can see that this kind of phenomenon might be setting up:

Look for narrow bands because a breakout move is possible in the future. Volatility can expand after a period of narrow bands.

One of the ways that you can use Bollinger bands is to look for opportunities to enter trades. If you are looking for the stock price to increase, you can wait for it to hit the lower Bollinger band, or even to fall slightly below it. If you can confirm with signals of a coming uptrend, this can be a good opportunity to buy, with a trigger to sell at the level of the upper Bollinger band.

Sometimes the stock will be trading above or below the mean, but you'll see it reverting to the mean as it goes up and down. Although these represent smaller opportunities to profit, when it reverts to the mean this could be a buying opportunity, and then you look for it to rise again to hit the upper Bollinger band, and sell at that point.

Alternatively you could short the stock at the top and wait for it to revert to the mean on the way back down.

When the security is in a big trend, you can use the 20 period moving average to set your stop-loss. In this example, Apple is making a big move up in price, and you can see all the candles are well above the mean.

Following the strong uptrend, we see an equally strong downtrend. Notice how closely the candles in both cases are following the outer Bollinger bands.

True Range and Average True Range

True range is calculated at each trading day (or point you are using) and is taken to the largest of one of the three following quantities:

- Difference between the current days high price and its low price
- The difference between the previous days closing price and the current days high price
- The difference between yesterdays closing price and todays low price

This is a measure of volatility in the share price. It can then be averaged using a 14 day moving average to give the average true range. Average true range increases with increasing volatility and decreases with when volatility decreases. Average true range is used to determine exit points. However, note that while the true range gives a measure of volatility, it does not indicate price direction.

The Chandelier exit uses true range to calculate an exit point by calculating a multiple of the true range, then subtracting that from the highest high that occurred after entering the trade. So it would define a stop loss point, typically using 3 x the average true range subtracted from the high.

ADX and Moving Average Convergence/Divergence (MACD)

Directional movement indices are a way to measure the momentum that bulls or bears have in the market. However these usually aren't used alone, instead the difference between the two, which is called the ADX is used to measure the strength of a trend. In the chart below, we see the ADX is plotted below the Apple year to date stock chart. The ADX shows the strength of the trend with positive being an upward trend since it's the difference between the directional movement index for bulls pushing prices above the previous days high minus the directional movement index for bears. Bulls are indicated by the green line and bears by the red line.

The way that a trader will use the ADX, is to confirm that a real trend exists. Of course in this example we have picked an obvious trend to highlight, but not all trends are that obvious, but you can confirm by looking for movement in the ADX. Entry and exit points can be selected by looking for cross overs in the directional movement indices. When the bullish index crosses over the bearish line, that is a buy signal if you are long on the stock. To sell, you would look for the green line crossing back below the red line. When shorting stock, you'd look for the red line crossing the green line, indicating that a downward trend was beginning. You can see the from the chart that these are accurately reflected in the actual trends that occurred, so they make one of the best tools you can use for determining when to enter or exit a trade.

MACD is a trend following indicator based on exponential moving averages. It takes the 12 period moving average and then subtracts the 26 period moving average. The MACD includes a signal line and when it crosses above the signal line, this is taken as a buy signal if you are hoping for a rise in stock price. When it crosses below the signal line, that is a sell signal (reverse if shorting the stock). In the chart below we have used the MACD with the chart for Apple stock.

Choose your indicators

As we mentioned above, drowning yourself in multiple indicators is probably not going to be very productive. The best approach to use is to pick 2 or 3 and stick with them. The MACD is one of the most effective indicators, but simply looking for cross overs between short and long period moving averages works quite well. You can combine this with looking at candles to make effective buy and sell decisions. But remember this is not a precise science and the fact that people’s behavior and the stock market in general are chaotic, and also impacted by news often quite dramatically, means not all of your trades are going to work despite using every tool that is available. The only thing you can really accomplish is tipping the odds in your favor, so that you end up with more wins than losses. The point here is you shouldn’t get too down when trades go bad.

Chapter 8: Chart patterns

We continue our look at tools that can help traders win at more trades while swing trading by taking a closer look at chart patterns. Some chart patterns can contain a wealth of information that you can just eyeball from the chart rather than diving into deep and complicated analysis. In this chapter we will look at some of the most important chart patterns and explain how they can be used to determine when to enter and exit your trades.

Flags

When there is a sudden shift upward or downward in price, followed by a sideways move, we have a flag pattern. A flat pattern represents a big move in price that occurs over a short time period. The flag pole is the part of the chart where the price shifts up or down. More indicators and tools have to be put to use to determine the meaning of the sideways portion of the move, or the flag. Its possible that the sideways zone is a zone of support, which means that the stock is about to begin an upward trend. Alternatively, it could be a new zone of resistance, meaning that prices could start trending down. To determine which is which you will have to look at your candles and also take a close look at other tools like moving averages.

When the price moves up suddenly, this is a called a bull flag. Demand may be reduced after a sudden surge in demand, and this is what forms the flag and flag pole. In order to estimate whether more upside is on the way, you can check the volume. When volume correlates to a bull flag pattern, then the odds are tipped in favor of the sideways move breaking into an upward trend.

Likewise, a sudden selloff can lead to a sudden drop in price followed by a sideways move, giving us an upside down or bear flag. Again, the bear flag might be a future level of support, but it could be a pause before a downward break in price. You will want to analyze using other tools such as candles and moving averages to get more insight, but once again the key indicator here is volume of trading. If the volume is higher than average –

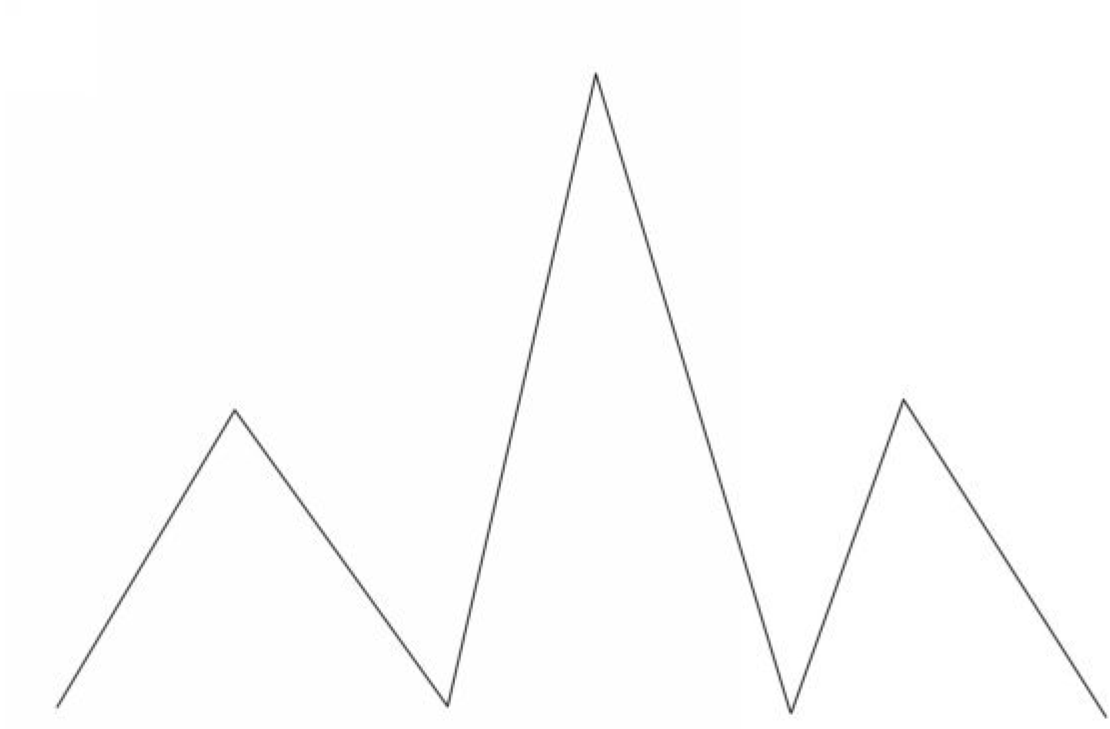
and the higher the better to take the flag seriously – then we can consider the situation to be a genuine bear flag.

Flags are often triggered by an external event, and aren't the result of the usual hum drum trading. A huge sell off might be caused by bad news about the company, or maybe a rumor. Alternatively, a sudden product announcement, good earnings report, or other event might trigger the formation of a bull flag. A check of the news besides looking at all of your indicators might be in order as well.

Head and Shoulders

A head and shoulders pattern is a peak, followed by a larger or higher peak, and then followed by another peak that is about the height of the first peak. The "head" forms the middle while the two smaller peaks flanking it are the "shoulders". In other words, the price keeps moving up but hitting a limit and then moving back down to a floor pricing level. In the middle peak, it goes to a higher price.

A head and shoulders pattern is considered a reliable indicator of a coming trend reversal. Typically, it may be seen after a long bullish trend, so it's a solid indicator that the bullish trend is over and a downturn in price is in the near future.



Double Top

A double top is a less reliable but strong signal of a trend reversal. This is a bearish signal, indicating that the share price is about to enter a downward trend. It needs to be confirmed, however, and the confirmation requires a future breakthrough previous levels of support (so the price breaks lower than the previous level of support after the double top). If this is confirmed, it can be taken as genuine and the price can be expected to drop, possibly well below previous levels of support. The double top itself results from the price peaking at a high value twice, and it is unable to break that level. There may be other price fluctuations at lower levels in between to the two peaks. This is an example of a double top provided by stock-market-coach.com:

GLBC (11.2900, 11.7500, 11.2200, 11.7300, +0.43000)
Trendline Break
Support
Support Turned Resistance
High Volume Breakdown
July
August
September
October
November
December

Chapter 9: Swing Trading Strategies for Forex

Many investors want to know what swing trading strategies work best for their type of investing. Truthfully, while we are going to provide some tips for Forex, there isn't really an answer to this. Some strategies may have developed on one market or another, but the techniques and tools that we have outlined in this book are actually quite general, and so apply to every financial asset that is traded. However, there are a few strategies that were developed on Forex markets that are of note, and you can also apply these to stocks as well.

CCI Moving Average

This strategy relies on an indicator called the CCI. The purpose of the CCI is to spot an overbought or oversold asset. Two moving averages are used, a 7-day exponential moving average and a 14-day exponential moving average. The key here is to watch for retracements, and then wait for the price to move back to the moving average. Then you check the CCI. If its 100 or below, that is a buy signal. When CCI goes above 100, this is a sell signal. You will also want to look for crossovers of the moving averages, used in the standard manner.

Floor Trader

The floor trader strategy relies on using moving averages to identify trends. You can use a 9-period exponential moving average with an 18-period exponential moving average. When the 9-period moving average crosses the 18-period moving average, this indicates a coming uptrend. When the reverse happens, you are likely to see a downtrend. The periods used in this method are chosen to help you avoid being fooled by retracements, which are those temporary pullbacks from the main trend that we've discussed earlier. In this case, you are seeking to use a retracement as an entry point into a trade. To find the entry point, first you look for the 18-period moving average to cross back above the 9-period moving average. Look for the price to touch the 9-period moving average. When it does, that is the buy signal. Of course when everything is reversed, and you are seeing a real downtrend, it offers and opportunity to short. On Forex markets, it's recommended that you use 3 pips above peak price of the retracement for a stop loss order.

Bollinger Band

In this strategy, we set up Bollinger bands on the chart, with the standard setup that has a 20-period moving average and two standard deviations. If the moving average shows an upward slope, and the closing price of a candle touches the moving average, this is taken as a buy signal. On the other hand, if the candle touches when the moving average is showing a downward slope, that is a sell signal.

Gartley

This is a variation of the ABCD chart we discussed earlier. Gartley was a stock trader in the 1930s who came up with it. What you are looking for here is a stock chart with four price swings. If you see the asset price rise to a peak A, drop to a point B that is above the level of support (so is a retracement), followed by a peak C, close to or above A, followed by another retracement, then you are seeing a buying signal, and a coming upward trend. Use levels of support and resistance to determine your entry and exit points for the trade.

Supertrend

Supertrend is another indicator that you can overlay onto a stock chart. The supertrend needs a period and a multiplier, and typically the period is set to 7 days and the multiplier is set to 3. The supertrend indicator will be green and lie below asset prices when there is an uptrend. If you are looking for an upward trend in the asset, then the start of a supertrend is the time to buy. When it turns red and you start seeing asset prices below the supertrend line, that is a sell signal. If you are shorting, then these would be reversed.

Chapter 10: Swing Trading Strategies for Stocks and Options

As we've stated repeatedly, swing trading strategies are general, so the strategies discussed in the last chapter could also be useful for stock traders. In this chapter we will focus on a few strategies useful for stock traders.

We are including options here as well, because there isn't really going to be any specific swing trading strategy for options. When you are trading options, if you want to apply swing trading techniques, you are going to apply them to the underlying stock. However, its vital to keep in mind that options have their own special concerns due to the expiration date of the option, and the fact that they are losing time value. Secondly, whether or not the option is in the money or out of the money is going to be an important consideration, but the indicators used for swing trading can help us determine whether or not its worth holding the option – aside from time decay considerations. Options have many issues all their own so its strongly recommended that you read my book on options trading to get the details.

The ADX Strategy

The ADX indicator can be used in conjunction with chart observations to determine trading moves. Specifically you will use these tools to seek out a coming reversal in trend. This can be used in a bullish trend, where you seek out a "top" or peak of the bullish trend, or in a bearish trend where you seek out the "bottom". The ADX indicator is used in conjunction with two exponential moving averages of 20 periods and 40 periods respectively.

If the 20 period moving average crosses above the 40 period moving average, this is taken as a sign of an uptrend. Check the ADX indicator to determine the strength of the trend, if its 30 or higher, it's a strong trend. This indicates that if you are looking to take a long position, you should buy now. You can set a stop loss based on the level of the 40 period moving average.

When the reverse occurs and the 20 period moving average crosses below the 40 period moving average, that is a sell signal if the ADX indicates a strong trend. You will want to confirm with other indicators, such as checking your candles.

Trend-line Trading

For those who are more visually oriented and who don't want to get lost in math, simply drawing trend-lines on your charts can be a successful strategy. You will want to be able to draw a straight line through the peaks of a trend, when it's a downtrend. You need at least two points to use to draw the line, but more points are better. Extend the trend-line out, and then use this as a price level of resistance. If you are tracing an uptrend, you will trace your line through the low points of the prices. This time, you are using the trend line to establish a level of price support. So you can use the trend line to determine when you should exit a trade and what your stop-loss should be.

Other Moving Averages

The moving average technique is very powerful and used frequently by traders. After the development of exponential moving averages, many others were also developed. The idea is to get better moving averages that are more responsive to recent prices. One of the most accurate moving averages is the Hull moving average. Like with other moving averages, you will need to include two Hull moving averages on your charts. One will be a short-period moving average and the other will be a long period moving average. The longer your time frame for entering and exiting trades is, the longer periods you will want to use, but 7 and 14 day can work well to determine entry and exit points. As with other moving averages, if you are long on the stock then you are going to want to wait for the short period moving average to cross above the long period moving average. When it does that is a buying signal. You can use that point as a stop loss as well, or slightly below it. Then, when you see the short period moving average drop below the long period moving average, take this as a sell indicator. You may want to confirm using other tools, such as the ADX.

Special considerations for Options

Options have special considerations because of the expiration date. If you are looking to use swing trading techniques with options, then you are probably not going to enter complicated trades like spreads, butterflies, and condors. Swing trading techniques can be helpful to level 2 options traders that don’t have the power of those other techniques. As we stated earlier, with options the underlying stock and its movement is what is important – so you can use swing trading techniques to determine when to enter or exit an option trade. You can use levels of support and resistance to determine what the strike price should be. The special features of options, however, will put additional constraints. Remember that options are always ticking away time value and they will expire, so the ability to use them with swing trading techniques may be somewhat limited because of this, there might not be enough time on the option to wait for the swing trading techniques to work. At the same time, since they are time limited in value, options are a natural fit in some sense for swing trading.

Swing Trading with LEAPS, which are long term options, might be another way to approach this. Since LEAPS expire a long time into the future, they are not as sensitive to time day, for now. An options contract covers 100 shares of stock, and even LEAPs are much lower priced than actually buying shares. They do have a lot of time value, however, so the relationship between the options price and the underlying stock price may not be 1-1. Another difficulty with LEAPs is you may have trouble finding a buyer – and swing trading relies on being able to exit a trade quickly. A rule of thumb to use is check the open interest and make sure that your options have an open interest of at least 100. Open interest is the number of options contracts that are out there on the market for a given option. If its at least 100, this ensures a decent level of liquidity. If its much less than that liquidity may be too low in order to use swing trading techniques, because you might find yourself stuck with the option past the point when the analysis and techniques of swing trading have proven useful.

The general method of buying low and selling high and looking for price swings can work, for some traders. For this technique, you will want to utilize in the money options. For a call option, that means the share price is above the strike price. Try getting options that are 20% or more in the money. This will cost more upfront, but these options will benefit from price increases in the underlying, if you are looking to see an upward trend in the stock.

If you are looking to short the stock and expecting a downturn in prices, you can invest in put options. A put option is in the money when the strike price is above the share price. Again, try to invest in strongly in the money put options.

One interesting strategy that will work, if you are expecting a large swing in price over the life of the option, is to buy a call and a put with the same strike price and the same expiration date. If your analysis indicates a coming uptrend in the stock price, then you can buy an in the money call, which would mean that the put would be out of the money. The purpose of buying the put is as insurance if the stock price actually drops.

If your analysis indicates a downward trend in stock price, then buy your put in the money. Again, this will mean that the call is necessarily out of the money, but it will act as insurance in the event that there is a surprising break in the opposite direction.

If you aren't sure of the stocks direction, you can buy an at the money call and an at the money put at the same strike price. This move will profit either way the stock price moves, provided that the stock price moves strongly. If it stays close to the strike price, then you may be looking at losses.

At any time with options if you are looking at an iffy situation, you should close out the trade. Always remember that time decay is your enemy with options trading and so while holding on to a stock that is moving sideways to see if it will break soon is a strategy you can use swing trading stocks, with options that is a bad idea. You might get lucky and it might break, but if it keeps moving sideways, time decay might work too strongly against you. So you have to be more ready and willing to exit your trades when it comes to options.

The good thing about options, however, is that the risk of loss is fixed and relatively low. The only loss you can experience with options is the small prices used to purchase them, and if you are smart with your trades, you won't even lose that much. So you could purchase an option that didn't work out for a couple hundred dollars, and that would be your maximum loss. If you let the option expire that is what you will lose, but hopefully you can spot problems early and then sell the option before you get stuck with it.

When you see that a stock is at a double top or a head and shoulders pattern after a bullish run, then buy put options. Be ready to sell them quickly as the stock drops in price, always watching the expiration date.

If your indicators show a coming uptrend in the stock, buy call options.

You also have the “option” to actually exercise it, if it expires in the money – but the vast majority of traders are looking to profit from trading itself. As the buyer of an option, however, you can get deals for stocks buying call options, if the price ends up shooting high. So you get a strike price near the current share price or even lower. As an example suppose a stock is trading at $100, so you buy a call option with a strike price of $101. If the stock goes up to $110, you would be able exercise the option, and buy the shares at $101 even though the market price was $110. You could immediately sell them for a profit.

In the case of a put, it lets you short the stock while taking less risk, since you don’t have to borrow shares from the broker. So you just buy a put option, and if the stock crashes, you buy the shares on the open market at the cheap price. The originator of the option is then obligated to buy them from you at the strike price.

Options add an interesting new way to get into trading.

Chapter 11: Money Management and the Psychology Of Trading

Proper money management is very important for any swing trader. Its important to never risk more than you can afford to lose, but that is rather vague advice. Most financial advisors recommend not risking more than 1-2% of your capital on a single trade. We will explore how that works in this chapter, and then look at the psychology of trading.

Setup a brokerage account that is suitable for your situation

While we would all like to earn as much money as possible over the shortest possible time, a get rich quick mentality has no place in the markets. Most swing traders are not going to earn a million dollars on their first trade, so you should plan on slow and steady growth. That means beginning with an account that a reasonable size. It should be large enough to start executing meaningful trades, but not be so large that you have to take out a second mortgage to fund it. You should begin trading with an account of may be $5,000 and work your way up to larger trading over time. Using a sustainable approach, if you end up losing all the money in your account you should be able to refund it and start over. Of course we hope that by preparing using the methods described in this book and engaging in further study that won't be necessary. But the point is you should start at a level that does not cause you pain. If you have to start at $1,000, that is fine too, or even $500 – which you could use to simply start learning the techniques. When you start making profits, in the beginning reinvest them until you grow your account into a larger size, which might mean $20,000 or more.

The 1% Risk Rule

Financial advisors say you should not risk more than 1% of your account on a single trade. This does not mean that if you have a $5,000 account that you can only buy $50 worth of stock, what it means is that the amount you risk losing should be $50 – and so you should set your stop loss at a level that will only put $50 at risk. If we use a 2% rule instead, then the rule would allow us to risk losing $100.

If a stock is trading at $50, we could put a stop-loss at $49.50 before entering the trade (say we expected it to rise in price). With a total loss of $50 allowed, that would mean we could buy up to $50/$0.50 = 100 shares – which would cost $5,000. So the rule would allow us to invest our entire account. Whether that would be a good idea or not would depend on the specific facts of the trade. But the example serves to illustrate how this concept works.

If we were willing to set a stop loss at $49, that would be a $1 loss per share, so we would only be able to buy 50 shares in that case, or spend $2,500 on the trade. That would make more sense, you would not want to tie up your entire account in one trade, even though as a swing trader you are only going to be executing trades that last a few days or weeks.

Running your trading like a business

When you get into swing trading, even if you are only going to do it on a part-time basis and keep your "day job" at least for now, you should think of it as a business. And it really can't be any other way, it is a business. If you were going to open a restaurant you wouldn't go through the trouble of opening it and then call in two weeks later to inquire how it was doing – likewise you cannot approach trading that way and expect success. You should treat your swing trading business with complete seriousness, and carefully watch your expenses and earnings – as well as keeping a close eye on any trades. This can help tip the odds of success in your favor. Otherwise, you might end up getting the results you'd get from using it as a hobby – because you are treating it as a hobby. When it's a hobby you might make occasional profits, but you will have more losses than you will if you treat it seriously. That doesn't mean you won't have fun trading, of course.

Leverage in Trading

As we mentioned earlier, swing traders can get 2-1 leverage in their trading if you open a margin account. You are going to need a minimum of $2,000 in order to open a margin account. In all honesty, you should wait 3-6 months before opening a margin account, and develop some experience entering into multiple swing trades using a cash account before you consider it. Otherwise, you might get yourself into a situation where you end up owing some brokerage a large amount of money. But we aren't trying to discourage people from using margin, only noting that you should gain some experience (and some trading wins) before you do it. Once you start getting some experience and have some confidence and ability to place some winning trades, then a margin account can be an option for you.

Have a clear understanding of the tax implications

Swing trading is a short term enterprise. Tax wise, that probably means that any earnings you receive from swing trading are probably going to be taxed as regular income. This book is not a tax advisement book, so you should discuss the details with an accountant, but that is likely the case. You have to hold an asset for more than a year to get the long term capital gains tax rates. So this will be "ordinary income", and unless you specifically setup a business that will "manage" your accounts, its going to be personal passive income. If you want to get full deductions that would come from running a trading business, you are going to have to setup an LLC or S-Corporation and then have the company do the trading, and manage the payouts to you. If you decide to follow this route, then you will probably have to work with an accountant to get the best setup. Probably the best approach is to try swing trading first, and when you start developing your skills to the level that you are enjoying it and making a lot of winning trades, then you can go through the process of setting up a business because it will be worth it at that point. Early on, the level of involvement we are imagining may not be worth the effort.

The Psychology of Trading

If you are going to be a successful trader, you are going to need to have a few traits that are important. Whether or not you can learn these traits, I will leave to others to figure out. For now you should take a close look at the situation and determine whether or not you are well suited to swing trading. Remember this is not a game, real money is involved here. So be honest with yourself.

You have a high tolerance of risk

People who like to play it safe are not suitable to be swing traders. Although swing trading is less risky than day trading, it still carries a high level of risk. If you are conservative in your outlook, and not in a political sense but in the sense that you are not willing to put your money at risk, or you feel a great deal of anxiety at the thought of losing thousands of dollars on a single trade, then you are not suitable to be a swing trader. If you think more in terms of bank CDs and mutual funds, then swing trading is definitely not your style. On the other hand, if you can tolerate the risk, then you are suitable to be a swing trader.

You are disciplined

We have tried to introduce the steps of discipline required for this business in this book. The first of these is to set targets for acceptable losses and profits before entering a trade, and then placing limit orders immediately to make sure those levels are enforced by the broker on your behalf. We have also discussed the right level to start with for your account size, and the 1% rule. If you are disciplined enough to always follow these rules, then you are suitable to become a swing trader. People who are going to be careless about setting stop loss orders or making specific goals they are going to look for achieving in their trades, are not suitable for this business. Those are the kind of people who are going to end up broke if they become any type of financial trader.

You don't panic

Panic is one of the biggest problems when it comes to investing, and there is good reason. It takes blood and sweat to earn your money, and if you are in a situation where you could lose thousands of dollars in a few days, that is enough to get anyone's attention. But if you are prone to becoming hysterical about it and panic sets in, then swing trading is definitely not something you are suited to pursue. You need to be able to make calm and rational decisions when staring at potential losses. You also need to be able to stay the course, and think with the higher centers of your brain in such situations. Often, an apparent loss is really a win in the making – so you should be able to analyze the situation and decide to stay in the trade or whether or not you should exit early.

You are not greedy

This might sound crazy. Don't greed and Wall Street go together? Actually they don't. Traders who get greedy might have a short time period of living large, but in the end greed will destroy them. And I am not talking about some kind of karma thing, but instead what happens is greedy people stay in trades too long, and fail to take trend indicators seriously. Instead they get giddy hoping to make more money, but then end up losing money when the inevitable downturn hits. If you are greedy you should seek out another line of work. The process used here should be to set limited profit goals for each trade, meet them, and then move on to the next trade.

Conclusion

Thank you for taking the time to read my book on swing trading!

I hope you have enjoyed the book and found it informative. Please drop by Amazon and leave a constructive review, we always love to hear from our readers!

Swing trading offers a great opportunity for people who like to take an active management role in their finances. If you enjoy the stock market and like the idea of getting deeply involved as a trader – from the comfort of your own home, this is definitely a career move you should consider. You can do swing trading full-time, or do it part-time just for some extra money while you keep your day job.

It's a fun and exciting business to get involved with, and I hope many readers take the plunge and get started with a swing trading business. It can be fun, rewarding, and a great path to wealth for those who stick to it over the long term. Best of luck on your trades!

Options Trading

Quick Start Guide-Crash Course and Strategies for Beginners,How to start creating passive income with Investments

Tony Correra

Download the Audio Book Version of This Book for FREE

If you love listening to audio books on-the-go, I have great news for you. You can download the audio book version of this book for **FREE** just by signing up for a **FREE** 30-day audible trial! See below for more details!

Audible Trial Benefits

As an audible customer, you will receive the below benefits with your 30-day free trial:

.FREE audible book copy of this book

.After the trial, you will get 1 credit each month to use on any audiobook

.Your credits automatically roll over to the next month if you don’t use them

.Choose from Audible’s 200,000 + titles

.Listen anywhere with the Audible app across multiple devices

.Make easy, no-hassle exchanges of any audiobook you don’t love

.Keep your audiobooks forever, even if you cancel your membership

.And much more

Click the links below to get started!

For Audible US

For Audible UK

For Audible FR

For Audible DE

Introduction

Congratulations on downloading this book! This could be the first step towards a regular income from options profits!

Options are a less well-known aspect of the stock market that traders can use to earn profits. The most amazing thing about options is you can start getting in on the action by only investing a small sum of money, even $100 or less! And each options contract gives you the right to control 100 shares of stock.

Options sound complicated, but they are actually pretty simple. They were designed to give people the option to buy or sell off stock at a pre-determined, specific price. Options are contracts, and like all other contracts, they come with an expiration date. But the best thing about options is they trade on their own market – just like shares of stock. And when the stock prices change, so does the price of the options contracts.

People trade options to profit off price moves on the stock market. That is, traders use the method of buying low and selling high to make profits from trades.

You can buy options that expire at various dates in the future. Most of the action is centered on options that expire within a week to a month, but some options expire several weeks, months, and even years into the future. As we'll see, the expiration date for the option is something you'll need to pay close attention to.

But for small investors, one of the best things about options is the high return on investment or ROI. As we will see throughout the book, a trader can earn far higher ROI trading options as compared to stocks!

So options trading is more accessible that day or swing trading stocks because of the low capital amounts required to get started, and you'll earn a much higher ROI!

Well, I hope you are as excited about trading options as I am. Let's go ahead and get started!

Note: The information provided in this book is for educational purposes only, and does not constitute financial, tax, or legal advice. Past performance is no guarantee of future success. If you are in doubt about your trades, please consult a professional financial advisor.

Chapter 1: Options Trading Explained

An option is an agreement to buy and/or sell some financial assets. We call this asset the underlying.

Options have an expiration date in the United States; the sale could occur on or before that date. There is a pre-arranged asset price.

It is called an *option* because the buyer of the contract has the option to proceed with the transaction, and is not obligated to do so. If the owner of the contract (the buyer) decides to go through with the transaction, they are said to be *exercising* their rights under the options contract. While the buyer has the option to do so or not, the other party to the agreement *is* legally obligated to the terms set out in the agreement. That means they must go ahead and buy or sell the underlying asset if the buyer exercises their rights.

On the stock market, an options contract represents shares of stock. Typically, one contract is for 100 shares. And so the contract gives the buyer the specific rights. If it is a call option, they can buy shares of a stock with a fixed price per share. Meanwhile, for a put option, they are able to sell shares of stock at the pre-arranged price. This is a key point, and it doesn't matter what the current share price is when the buyer decides to exercise their rights. The seller of the options contract is legally obligated to honor the terms of the contract. This means they must buy or sell the shares at the pre-agreed upon price no matter what.

Options also expire in a matter of days, weeks, months, and even years from the present date. It’s important to know the expiration date of an option because that has a large influence on the price of the option. Options that only last for one week are called *weeklies,* while options that last one year or more are called *LEAPS*.

It's seldom the case that the option remains in force between the seller and the original buyer because options are traded on their own market like stocks. An option is likely to change hands multiple times as options traders seek to profit or avoid losses. Option prices will constantly be fluctuating.

Most options expiration are never exercised, but you need to be on guard about this if you are selling options because if the current owner of the option would benefit by purchasing or selling the shares, there is a risk that they will actually decide to exercise their rights. The risk of this is quite a bit higher than normally portrayed in internet discussions about the topic, where it's often noted that "most" options expire without being exercised.

All of this might sound a bit confusing at first, but as we go along the details will be clarified, and it will start to make sense. Let's begin by exploring the two major types of options.

Strike Price

The price that is pre-agreed upon for the sale is called the strike price. That will be the price per share if it's exercised. So, for example, you could have an options contract for Apple. If the strike price is $180 per share, even though the Apple is actually trading at some other value such as $201 per share, the $180 price would be used if the option was exercised. The strike price is arranged and agreed upon when the contract is written and for the lifetime of the option.

Call Options

A call option is an agreement that gives the buyer the option to purchase stocks. The benefit to the buyer is the agreement contains a pre-arranged price, which is called the strike price.

Remember that all options contracts are optional for the buyer, which is the buyer of a call option is not obligated to purchase the shares. Buying a call option is a long investment, which is you are bullish on the stock and hope to profit from a rise in the share price. This can be done in one of two ways. The first way is to simply purchase the shares at their strike price if the market price of the shares has risen above the strike price. That way, the buyer benefits from being able to purchase the stock on a reduced price after the price of the shares has risen, possibly substantially. Then either they can turn around and sell them at a profit on the stock market or they could be satisfied that they were able to buy stocks at a lower price.

The second, and far more common way to profit would be to trade the option, that is, sell it to another buyer for a profit. An options trader can do this because when share prices rise in comparison to the strike price, demand for that option rises, driving up the *price for the option*. This is how most traders earn money trading options. So you could buy an option for $100, and then sell it for $150 a few days later.

Premium

This is the fee that is paid to purchase an options contract. The party who writes the options contract receives a fee from the buyer to enter into the contract. This is called the premium. The seller keeps the premium no matter what happens. The premium is quoted as the price per share, but note that an options contract covers 100 shares of stock. So if the quoted price of an option is listed as $2, the actual price you have to pay in order to purchase it is $200 (or $2/share x 100 shares). Although this entitles you to control the shares of stock, you don't actually own them unless you exercise the option.

Why Sell Call Options?

You might ask why someone would sell a call option in the first place since they can end up having to sell shares of stock. The reason is that selling options is a way to generate monthly income. As we will see later, if you already own shares of stock, you can sell options contracts against them and earn money from the sale. Owners of shares of stock that do this are making a bet that they can sell the options contract and earn money without having to sell their shares, but if you decide to sell options contracts be aware that in some cases the right to buy the shares will be exercised. So while you will profit from the premium you earned from the sale of the options contract, you may be forced to sell your shares of stock.

Advanced options traders can sell options contracts without having to actually own the shares of stock. These are called *naked* options, and we will discuss this more advanced method later in the book. By "naked," we mean that the options contract is not backed by anything. The danger is that the owner of the option (the buyer) will exercise it.

In that case, the seller of the naked call will lose money, because they would have to buy the shares of stock at the market price, and then sell them to the owner of the options contract at the lower strike price. So they would lose the difference: (market price – strike price + premium paid per share) x 100 shares.

If the party who writes the options contract owns the share of stock, it's best to enter into this type of arrangement when you can set a high strike price. In other words, choose a price that is higher than the price you originally paid to obtain the shares. That way even though you might be forced to sell the shares, at least you will make a profit on the deal. However, you won't make as much profit as you could have had you sold the shares on the open market. We say that you missed out on the *upside*.

In the end, selling options contracts is a bet against the stock, in the sense that you don't think the share price is going to go as high as the buyer believes it will go. If it fails to do so, the option will reach the expiration date, and it will “expire worthless” because nobody would buy shares that were more expensive than the going rate.

Call options have this name because the originator of the options contract might have to sell the shares of stock that they own; in other words, the shares will be "called away."

Break Even Point for Call Options

If you are buying call options, it's a good idea to have the break-even price in mind. In this case, it would be the premium + strike price:

Call option break-even point = premium + strike price

Suppose the market price is $50 per share.

Then, if you buy an option for $1 with a strike price of $51, the break-even point is $51 + $1 = $52 a share. So in the event you exercise the option, the break-even price would be $52 a share, and you’d want the stock price to go higher than that in order to make a profit.

However, if you are only buying options in the hope of selling them as the price of the options contract rises with rising stock prices, then the break-even price isn't really relevant. In that case, you only want the price of the option to go higher than the premium you paid for it. If you bought an option for $1 a share, then if the option price goes above $1 a share, you have a chance to profit, depending on what your broker's commission structure is.

Example: Buying a Call Option

Let’s say a particular stock is trading at $50 a share. You buy a $50 call option (the strike is $50) for the stock with 45 days left to expiration. The price of the put option is quoted at $1.41, which means to buy the option it cost you $1.41 x 100 shares = $141. At 30 days remaining until expiration, the price of the stock has risen to $55 a share. Under these conditions and everything else being equal, the price of the call option is now $5.07, so you can sell it for $5.07 x 100 = $507, earning a profit of $366, less any commissions.

If you really wanted to buy the shares, you have the option to purchase the stock from the originator of the call option for $50 x 100 = $5,000 (remember 100 shares), which would save you $500 off the price you’d pay on the open market. Since you had paid $141 to buy the options contract, your net savings would be $359.

If you wanted to, you could then turn around and sell on the open market. This means you could sell them at the market price of $55 a share, for $5,500, leaving a profit of $5,500 - $5,000 - $141 = $359.

This serves to illustrate why under these circumstances the option is unlikely to be exercised since that is slightly less profit than you'd get simply selling the option to someone else. Where that circumstance might change was if the option was about to expire and you couldn't find a buyer for the option. That would still leave you with the ability to exercise your rights under the options contract and buy the shares at the reduced price, and then you could sell them immediately to get the profit.

Why Buy Call Options?

If you aren't interested in buying the shares, the main reason to buy call options is to profit by selling the option at a later date so that you can profit from price moves in the underlying shares. As we saw from our example, the price moves can sometimes cause dramatic increases in the price of the option. It isn't often that a stock is going to move $5 one way or the other, however, even a $1 or $2 rise in stock price can have dramatic effects. Consider an option on a stock trading at $51 a share with a strike price of $50 and 30 days to expiration. You could buy that option for $1.77 a share (total price - $1.77 x 100 = $177). If the share price increased to $52 the following day, you could sell the option for $2.42 (total price $2.42 x 100 = $242), making a quick $65.

With a call option, the benefit comes when the share price is higher than the strike price.

Even when call options have strike prices that are above the share price, they can appreciate in value when the share price of the underlying stock increases. So this also provides opportunities to earn profits.

Here are some recent moves that stocks made that would have led to enormous profit margins for people holding call options contracts:

- Between June 17, 2019, and June 18, 2019, Apple increased from $194 per share to $200 per share.
- On June 3, 2019, AMD was trading for $27.40 a share. By June 6, 2019, it was $31.84 a share.
- On June 6, 2019, Amazon closed at $1,754.63. By June 18, 2019, it was up to $1,914 a share.

- Between May 31, 2019, and June 11, 2019, IBM went from $127 a share to $135 a share.

Of course, stocks are not always going up, and you have to study the market closely to find opportunities. The point is that these opportunities are out there.

Put Options

The second class of options is called a *put option*. Like any option, it has a strike price with an expiration date. But in this case, the buyer has the option to *sell* 100 shares of the underlying stock. The transaction would take place at the pre-arranged strike price before or during the expiration date of the option. These are called "puts," and this stems from the fact that the originator of the contract is forced to buy shares of stock, so the shares are "put to" the party who wrote the contract.

Put options can be used in different ways. One way to profit from put options is by essentially shorting the stock. So when you buy a put option, you are short, believing that the stock will decline in price. Put options allow the owner to sell shares above the ongoing price on the market. That means they increase in value when the stock market declines.

Imagine that you buy a put options contract at $2 a share, for a stock trading at $50 a share. We could set the strike price to $48.

If the share price dropped to $46 a share or lower, you could buy the shares on the open market and then sell them to the originator of the put option at $48 a share.

Many options traders never exercise options but instead rely on being able to sell them at a profit to other traders before they expire. In the case of a put, you are still essentially shorting the stock because the price of the option will rise as stock price drops. In this case, you wouldn't buy the shares to sell to the writer of the put option, and you'd simply sell the put on the options market at a price that was higher than what you paid for it.

Example: Buying a Put Option

Let’s say a particular stock is trading at $50 a share. You buy a $50 put option for the stock with 45 days left to expiration. The market price of the put option is quoted at $1.39, which means to buy the option it cost you $1.39 x 100 shares = $139. At 30 days left until expiry, the price of the stock has dropped to $45 a share. The price of a put option is now $5.02, and so the total price you could get selling the put option would be $5.02 x 100 = $502, fewer commissions.

Just like with a call option, if you buy a put option, you can exercise your rights, which, in this case, means selling the stock at a higher price than it's trading for on the market. If you already owned the shares, then the put option actually saves you from having to eat too many losses. That is, as the owner of the options, you can use sell the stock at $50 a share, even though it is trading at $45 a share. But remember you'd lose the price you paid for the premium, and so your net would be $5 - $1.39 = $3.61.

Some people buy put options to protect their investments in large numbers of shares. Owning a put option and being able to sell someone your shares at a much higher price than they are trading for in the market in the event a stock has a major downturn can be reassuring.

Even for those not currently owning the stock, you could buy them at the reduced market price, that is currently $45 a share, and then exercise your rights and sell the shares to the originator of the options contract at the strike price of $50 a share.

Why Sell Put Options?

Suppose that the party who writes or is the writer of the option has to buy shares of stock at an inflated price. This is because the strike price would be higher than the market price if the option were to be exercised. So you might be wondering why anyone would enter into such a contract. Again, there is a bit of speculation going on here. In this case, the seller of the option is speculating that the price of the stock is going to remain above the strike price of the option before it expires. In that case, they can earn money from the premium, which is the fee they received for the option.

Also, unless the stock is in a catastrophic situation, it might not be such a bad deal having to buy the stock. If it goes up in price again, then you can either break even or possibly see the stock price go high enough so that you can earn a profit.

Put options can be "protected," meaning that you reserve enough cash in your brokerage account just in case you need to purchase the shares. Remember they would be sold at the strike price. For example, with a strike at $40, you'd have to have $4,000 in your account in order to sell a "protected" put.

On the other hand, with brokerage approval, you could sell a "naked" put. This is equivalent to selling a naked call, meaning that the options contract isn’t backed by anything.

How Many Options Are Actually Exercised

The big rub in this is that the vast majority of options are never exercised. In fact, only 10% of options are exercised. The others expire worthlessly or are closed out. That means that people who write options contracts have good odds that they can make a monthly income selling either calls or puts. Since most options aren't exercised, many traders earn monthly incomes selling naked puts. But if a put option is exercised, you had better be able to come up with the cash in order to purchase the shares at the strike price.

Put options give you the opportunity to profit from drops in the share price. Any $1 move in share price can mean big pricing changes in options.

- Between April 23, 2019, and April 25, 2019 SNAP declined from $11.99 a share to $10.79 a share.
- Between May 3, 2019, and May 14, 2019, SPY dropped from $294 a share to $280 a share.
- On April 24, 2019, Intel was trading at $58.72 a share. By May 1, it was trading at $50.76.

Knowing When to Buy Puts and Calls

The trick, of course, is to know when the stock will rise, which means buy a call option, or if the stock declines, which means buy a put option.

Knowing how to make your trades isn't going to be something you're going to be successful at very often simply going off gut feelings. Instead, you're going to have to put some time into studying the companies you plan to invest in, just like you would if you were building a personal stock portfolio, but in this case, you're going to be more interested in short term news that can move the stock. That means you're going to be looking for upcoming earnings reports and what the expectations are. You'll want to pay attention to news about products the company has on the market or plans to release. One earnings report that failed to meet expectations can send stocks tumbling; on the other hand, if it exceeds expectations, the shares will rise dramatically in price. Any product recall or failure can send shares tumbling, the release of an exciting new product like a new model iPhone that wows critics can send shares skyrocketing.

You can't predict everything ahead of time so you can't expect to win on every single trade, but by studying company fundamentals and keeping up with financial news, you can make reasonable bets that make for more wins than losses on your trades.

Options Pricing

Don’t confuse strike price with options pricing. You will see options listed by strike price, but the price for the option is listed for one share. Remember that the option is for 100 shares, so the price you have to pay for the option is the option price x 100.

For example, SPY is a fund that tracks the S & P 500. The current share price is $293.17 a share. Looking at options, we see that they are listed as calls or puts by strike price. So we see a $294 call expiring in 2 weeks, with a price of $3.23. This means that the price to buy one options contract would be $323. If we wanted to buy 5 options contracts, it would cost $3.23 x 100 x 5 = $1,615.

In The Money

In this case, the strike price of the option is positioned favorably, in comparison to the current share price of the stock on the market. Call options are in the money when the strike price is below the trading price of the stock. For example, IBM is currently trading at $139.20 a share. That means a call option that has a strike price of $137 would be "in the money."

We say it’s in the money because someone would benefit by owning the call option, because they would have the ability to exercise the option and therefore buy shares of IBM at $137 a share, which is cheaper than the $139.20 per share they would have to pay simply buying the shares on the market. In the money call options are worth considerably more than those options that are not in the money. For example, a $137 option on IBM option would cost a total of $377, while an IBM option with a strike price of $142 would cost $97.

Put options are in the money when the strike is higher than the market price. In that case, anyone who owns an option contract would benefit because they could sell shares of IBM at the strike price. Since they’re higher than the price currently going on the market, they benefit.

In the money options always have a higher value. If the share price is $139.20, a $140 IBM put is in the money and costs $233. A $138 put option is not in the money, and so costs less, at $160.

At the Money

In this case, the share price is exactly equal to the strike price. You can buy at the money options as a strategy to save some money. This can be a good strategy because they may have a good probability of moving in the money in the coming days or weeks.

Out of the Money

In this case, for a call option, the market price is below the strike.

These options will be priced lower when compared to “in the money” options and “at the money” options. If there is a strong reason to believe that prices will move enough so it will be in the money at some point before the option expires since the prices are low, they can be a good bargain. But that depends on the specifics of market conditions and what’s going on with the company at that particular time.

Now, consider puts. We say it’s “out of the money” when it's market price is higher than its strike price.

When an option is out of the money, it can’t be exercised, and so it’s why they are cheaper. The main thing to remember about out of the money options is that they expire worthlessly.

To see how it works for a call, suppose the share price of some stock is $135 a share. Now consider is an option that has a strike price set to $140, for 100 shares. Then, if the share price remained constant:

- At 30 days remaining, the price of a call option would be $71.
- At 20 days remaining, the price of the option would be $41.
- At 10 days remaining, the price of a call option would be $12.
- With just five days left, the price of the call would be $2.

You can see that out of the money options rapidly lose value. This is because the pricing of the option when it’s out of the money is tied up in the time value. Of course, if the price of the stock suddenly reversed, which it could in 5 days, this would turn into a profitable scenario. If the share price jumped to $140 3 days to expiration, then the option price would jump to $79. If later that afternoon it went to $141, then the price of the call option would jump to $139.

Of course, if you were to purchase an "out of the money" option close to expiration, you'd have to have good reason to believe the stock price was going up. Of course, if you were right, you'd probably be seeing some movement in the share price already because other traders would be bidding up the price. Also, it is unlikely you're going to have the kind of information the "smart money" or big institutional investors have before regular individual investors know what is going on.

Mind the Expiration Date and Time Decay

The expiration date of an option is one of the most important things an option trader has to pay attention to. Options suffer from a phenomenon known as "time decay." As the time remaining to the expiration date approaches, the value of the option decreases. It's not a 1-1 relationship, because the price of an option depends on different things (mostly getting value from the price of the underlying shares), but time decay can impact all options prices. So knowing the time remaining until your options expire is an important part of options trading.

Setting Rules on When to Sell

Having rules to protect yourself from losses and to ensure you grab some profit is essential. Day traders that are profitable use these two strategies to protect themselves from catastrophic losses. They use stop-loss orders, and you can also place limit orders to sell when you reach a certain profit margin.

Most people are familiar with buying and selling stocks using market orders. That is you simply place a buy or sell order on the stock using the current market price.

However, you can also place what are called limit orders. A limit order only executes if the price is able to reach a particular limit you specify. For example, if you wanted to buy IBM stock and it was trading at $132 a share, but you were only willing to pay $130 a share for it, you could place an order to buy it at $130 a share. If IBM never drops to $130 a share or lower before the limit order expires, you'd never buy the shares. But if it does drop to $130 a share or lower, then the system would automatically buy the shares for you, even if you weren't sitting in front of the computer.

The best use of limit orders is to place a limit order to sell shares of something you are trading to make a profit if the price drops below a certain value. So using an alternative situation, suppose you buy shares in IBM at $130 a share for a swing trade. You could place a stop loss order. This is a limit order where you specify that you want to automatically sell the shares if the share price drops to a certain amount. If your acceptable loss was $2 a share, you could enter a $128 stop loss order for your IBM shares.

We can use the same type of logic with options as well. Suppose you buy an option on IBM that expires in 2 weeks, and you paid \$2.47 (total price \$2.47 x 100 = \$247). You may want to sell the option if the price drops to \$2.35, for example. That way you limit your total loss on the trade to \$12.

Whether you use automatic limit orders or not, you should have pre-defined exit points for your trades. It's too easy to either miss the right point to get out of the trade since options can rapidly decline in value if the stock is dropping, or to get a little greedy and hold on too long if share prices are rising, only to see them suddenly drop and then you missed an opportunity for gains.

Where you set your limits is a personal decision, but you should set limits. The magnitude of the limit is going to vary from option to option since options for different stocks are going to be priced differently (they are proportional to the underlying share price, so options on Amazon cost a great deal more than options on AMD, for example). What you can do is use percentage rules, so if the option declines in value by 10%, or 25% if you have a higher risk tolerance, you get out of the trade and sell the option. For profits, you can set up a rule that you're going to follow, such as the price of the option has to rise by \$50 or \$100 to sell it, or do it by percentages. Of course, you may have to adjust your expectations based on real-time conditions and sell and take lower profits than you had hoped.

One Cancels the Other Order

It's possible to set up, and OCO or one cancels the other order. So in that event, you'd set up two orders to sell at different prices. If you bought an option at \$100, you could place an order to sell at \$85 to protect yourself from losses, and another order to sell at \$150 if that was your profit goal, with one order canceling the other order if either was executed.

Options Strategies

While you can earn profits buying unidirectional options (that is investing in calls or puts), those types of trades carry higher risk because you really can't be certain which direction the stock is going to move over a short time period. For that reason, professional options traders use various strategies to limit the risk of loss. The unique nature of options means that you can actually fix your total losses to a maximum possible loss, however that also means potential profits are capped. In some cases, these strategies help ensure that you can make regular profits no matter which way the stocks that underlie the options you are investing in move. Put in plain English, you make profits if the share price goes up, and you make profits if the share price drops. But you wouldn't make as much profit if you had bought or sold options of one specific type. We will explore these strategies which can get quite advanced in future chapters.

Long vs. Short Call

You will often hear traders and stock sites discussing long vs. short. When it comes to call options, a long call is simply buying call options, with the belief that there will be an increase in the share price. A short call is selling a call option when you are bearish on the stock and believe the share price will decline.

Long vs. Short Put

When someone says "long put," that means they have purchased a put option and are bearish on the stock. In this case, they have purchased an option which would allow the sale of the stock at a strike price they believe will make them a profit.

Or alternatively, they believe that they will be able to sell the put option at a later date at a profit because there will be a drop in the share price. If you sell a put option, then you are short position on the put. A trader that sells a put option has a more bullish outlook on the stock and believes it is more likely to rise in price. It’s kind of confusing terminology since shorting the stock is the same bet that someone who has a long put position is betting on, that the price of the shares will drop.

LEAPS

A LEAP is a fancy term for an option with an expiration date that is one year or more from the present date. LEAP means Long-term Equity Acquisition Security. As far as basics are concerned, LEAPs are just like other options. That means they have a strike price, they cover 100 shares of stock, and you can buy call and put options. You can do certain things with LEAPS that you can't do with "ordinary" options, such as use them to cover shorter term call options that you sell. Also, typically, when an investor is buying a put option to act as insurance on their equity positions, they will buy a LEAP. We will talk more about LEAPs in our chapter on options positions.

Chapter 2: Options Basics

In this chapter, we will go over some of the basics associated with options trading, from selecting a broker to making your first trades. Selecting a broker is a very important decision since options can be subject to hefty commissions that could cut into your profits. It's important to select the best broker to get off on the right foot.

Which Broker to Use?

Before you select a broker, you should choose a broker that has zero commissions on options trades. You'll also want to balance that against the resources a given broker offers. In recent years, many brokerages have opened for business that offers zero commission trades, while others have cut their commissions. However keep in mind that if a brokerage is charging a $7 commission for a trade, and you might make a profit of $20, $50, or $100, that is a pretty significant cut into your profits.

That is one of the reasons that you should consider opening an account with Robinhood. This is a trading platform that is available as an app on iOS and Android, and you can also use it online through a web browser to execute trades. For advanced traders, Robinhood probably isn't the best option, because it won't allow traders to take certain actions like sell naked options. However, for beginning traders, Robinhood is a great option. One of the best things about it is that it has zero commissions, and it's very simple to find options to trade and execute the trades.

Another popular broker used by options traders is Tasty Works. This is a more powerful trading platform, and you can also use Tasty Trades to access many educational videos and materials.

There are many brokers out there, from the older and more traditional Charles Schwab or Fidelity to the newer platforms like Robinhood. Which broker you ultimately choose is a matter of personal taste. However, it is strongly recommended that you select a broker that has zero commissions on options trades.

Bid vs. Ask

Something you'll need to be aware of if you aren't already is to be checking the bid and ask prices for options you are interested in trading, especially if you are trying to sell an option quickly. The *Bid* is the current price that prospective buyers are offering for a given security, while the *Ask* is the current price that sellers trying to close their positions are asking. If there is a large spread between the bid and ask, it might take a while to sell your option. Let's say we had a call option that expires on July 3, 2019, and a strike price of $293. The options would cost $3.84, but the suggested limit order is $3.81-$3.86, and that's because the current bid is $3.81 and the current ask is $3.86. In this case, the bid and the ask are pretty close in value, only differing by $0.05 (or $5; remember that option prices are per share, but you must buy one options contract which controls 100 shares).

If we go out to a $295 call that expires on 9/18/2020, we find that there is a pretty big spread in the bid and the ask. For this option, which has a quoted price of $20 (so one option would cost $20 x 100 = $2,000), the bid is $17.50, and the Ask is $22.50, so there is a spread of $5. The spread is higher because the option expires a long time into the future, and so the volume of trading is low, allowing buyers to be a little pickier. Of course, they can't be too picky, however, because options that expire on a date a long time out into the future have all their time value, and so are worth more. If you were selling this option, in order to close a deal in a reasonable time frame, you might have to offer a lower selling price than the "official" price, and so you might actually sell it at the bid price of $17.50.

Mark

The mark is the mid-point between the bid and ask prices. When you look up an option and see its price listed, it's the mark.

Open Interest

This gives you the number of options that there are on the market.

This isn't necessarily the number of options contracts for that strike price and expiration date that have ever existed, because options contracts can go out of existence if they are exercised. For the SPY $295 call that expires on 9/18/20 (it is currently June 2019), the open interest is 1,627, which means there are 1,627 of these call options currently in existence on the market. Compare this to a SPY $295 call that expires on July 10, 2019, just a few weeks from now. It lists an open interest of 318, while one that expires on July 3 has an open interest of 1,149. So the open interest is not necessarily tied to the expiration date.

Volume

The volume is the number of options contracts that were bought and sold on the most recent trading day. Generally, the closer you get to the expiration date, the higher the daily trading volume. Indeed, for a $294 SPY call that expires in one week, the trading volume is 14,744, which means that on the last day the market was open, there were 14,744 trades of this option. In contrast, the LEAP we looked at earlier that expires in September 2020 only had a volume of 13, which means selling one might take a bit of time.

Trade Multiplier

This is just the number of underlying shares for the option, and it's also used to calculate the cost of the option. In almost all cases you are going to come across the trade multiplier will be 100, which means that if the option price is quoted as $X, then the actual price you would pay to buy the option or the price you would be paid to sell the option will be $100 x $X. It also means that there are 100 shares of the stock underlying the option.

Implied Volatility

This is a measure as a percentage of the volatility of the stock that underlies the option. Volatility is a measure of how stable the price of a stock is over a fixed time period. If stock A swings between $50 and $100 in a trading day, but stock B swings between $50 and $60 over the trading day, then stock A has more volatility than stock B. The smaller the magnitude in price swings, the lower the volatility. You can look up a parameter for any stock called beta, which tells you the volatility of the stock as compared to the stock market as a whole. The average volatility of the total market is assigned a beta of 1.0. If a stock has a beta greater than 1.0, then it’s more volatile than the stock market on average. So if beta is 1.25, the stock is 25% more volatile than the entire market. If beta was instead 0.75, that means that the stock is 25% less volatile than the entire market.

Implied volatility gives you a measure of how volatile the stock is going to be over the lifetime of the option.

However, while beta indicates past volatility, implied volatility seeks to give the future volatility of the stock. Its actual value is determined through options pricing models, and it is somewhat theoretical in nature.

Specifically, implied volatility gives you the one standard deviation in stock prices for a given time range. One standard deviation gives you approximately 68% of a possible range of stock prices. If the implied volatility for an option on a stock with a share price was 25%, then there would be a 68% chance that the share price would be between $75 and $125 by the time the option expired. Considering a different situation, if the implied volatility was 15%, that would mean there is a 68% chance that the price of the stock would be between $85 and $115 by the time the option expired. Higher implied volatility means more uncertainty when it comes to the future stock price.

The way it's used is that the implied volatility gives you a sort of probability measure that the price of the stock will move into a favorable range as compared with the strike price of the option. A higher volatility means that this is more likely to happen. Since it's more likely that an option with higher implied volatility is going to be in the money, options with higher implied volatility cost more than options with low implied volatility. Of course, that doesn't mean you can't make profits in both cases, and implied volatility is only one of many inputs you need to consider.

Consider SPY and IBM. SPY has a beta of 1.0 – it tracks the S & P 500, so we'd expect its volatility to be the same as the stock market. IBM has a beta of 1.59, so its 59% more volatile than the stock market.

You also see this reflected when looking at implied volatility for options that are out of the money by $1 and expire in one month. The implied volatility for the SPY option is 14.83%, while for IBM, it is 24.84%. Options for IBM are more expensive, generally speaking. Of course, that doesn't necessarily mean that you're going to profit.

American and European Style Options

An American option can be exercised at any time, as long as it's before the expiration date. You can exercise the last day of trading, and the option actually expires the next Saturday. European style options can only be exercised on the expiration date.

Reading Options Tickers

Like stocks, options have their own tickers, but they contain a lot of information besides just the stock ticker since options have important qualities beyond simple pricing that need to be taken into account like the expiration date. In fact, the ticker will have the stock ticker, expiration date, type of option, and strike price listed in the ticker. Here is an example:

MSFT190628C00119000

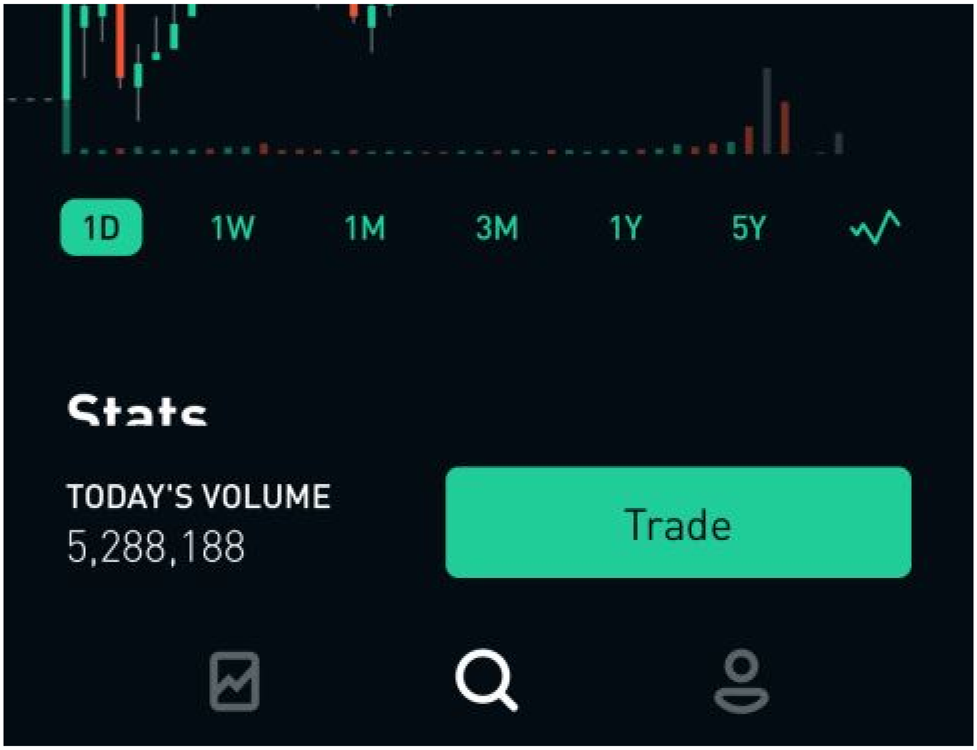
The leading characters are the stock ticker for the underlying stock of the option. In this case, the underlying stock is Microsoft, and so we see the ticker MSFT. Next, we see the expiration date of the option in the form of year-month-date. This particular option expires on June 28, 2019.

This is followed by a C which denotes the fact this is a call option, and had it been a put option, there would be a P listed here. The rest of the ticker includes the strike price, but there are three decimal places, so in this case, the strike price is $119.

How to Buy an Option

Buying an option is a pretty simple process, but we'll show you the steps required to buy an option using the popular Robinhood platform, which is a suitable trading platform for beginners due to its easy to understand interface, even if it doesn't have all the bills and whistles of more sophisticated platforms like Tasty Works. Of course, to do this trade, you'll have to fund your account from your bank and be approved to trade options by the broker.

The first step is to search for the stock ticker we are interested in. For our example, we bring up IBM.



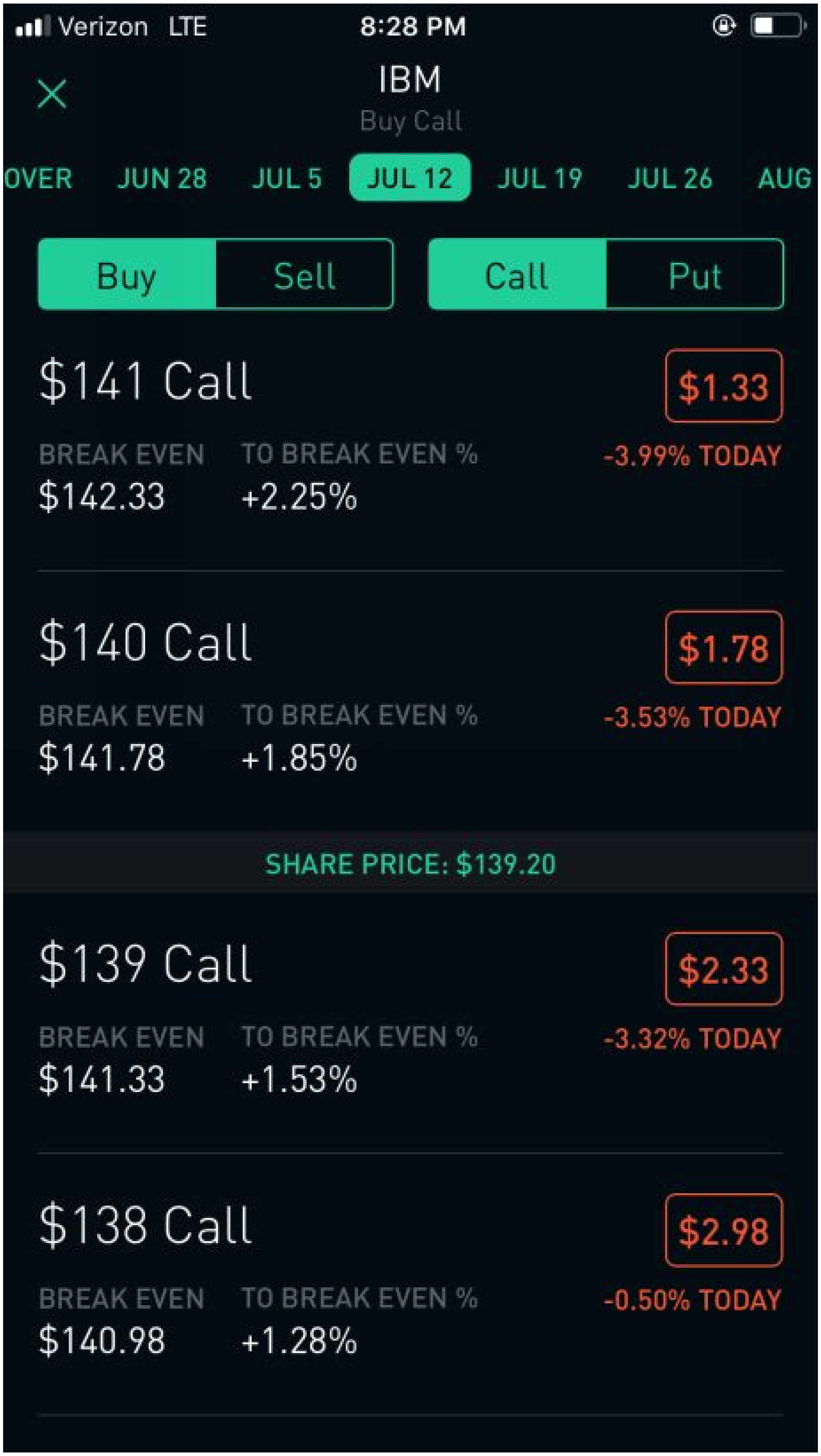
Now click Trade, and select "Trade Options." This brings up the options for IBM that are available. There are different selections, including Buy, Sell, and switching between views of Calls and Puts.

Robinhood doesn't list options by the traditional ticker method. Instead, you find the expiration date of the options you want to look at by scrolling along the top of the screen from left to right. Tap on a date to see the options available that expire on that date.

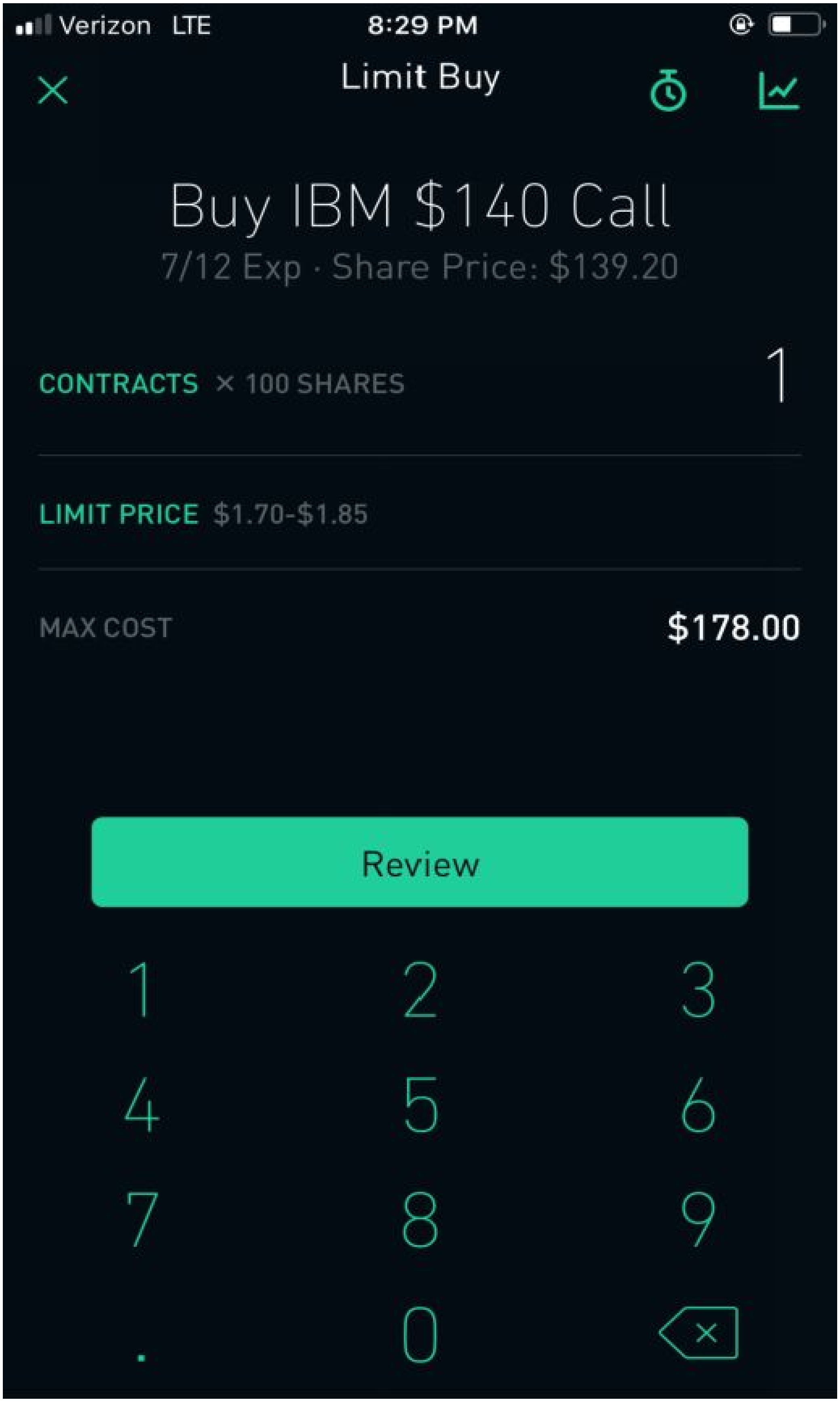
Then the options are listed in a table format, with the strike price and whether it's a call or a put shown on the left side. The actual price of the option is shown on the right side of each entry. So in this image, we see some call options that expire on July 12th. Notice that the current share price is also shown in the table, at $139.20. We see that a $141 call is priced at $1.33, along with information that gives the percent change in option price today (we see it went down 3.99%).

A $140 call is available at $1.78. Remember that 100 shares of stock underlie the option, and so the actual price you'd have to pay for the option would be $1.78 x 100 = $178.

Break even information is provided as well, giving us at a glance the break-even prices that we discussed in the first chapter. If you aren't going to actually exercise your right to buy the shares, that break-even price isn't necessarily relevant. For example, if the share price was $141 with 10 days to expiration, below the break-even price by $0.78, the price of the option would rise to $2.00 which is more than the price you paid for it, and even higher than the break-even price. So the share price would be lower than the break even, but you'd be able to sell the option at a profit. It's key to remember that the break-even price that is quoted isn't going to be your break-even price trading and selling the options.



You can click on the option price to open the purchase screen.


Verizon LTE
8:29 PM
Limit Buy
Buy IBM $140 Call
7/12 Exp · Share Price: $139.20
CONTRACTS × 100 SHARES
1
LIMIT PRICE $1.70-$1.85
MAX COST
$178.00
Review
1
2
3
4
5
6
7
8
9
.
0

Here, we can specify the number of contracts we want to purchase. The default price is the market price or mark (so it's a market order by default). However, you can enter a limit price, so the trade won't execute unless you can get whatever price you put in for your limit order. In this example, we put in a limit order for a $1.65 price, which means we won't get the option unless the price drops to $1.65 for a total price of $165. Keep in mind if you place a limit order it might not execute in a timely fashion, and there would also be a chance it wouldn’t execute at all.

Notice the small button in the upper right with a chart icon, and if you tap on that, you can bring up important information about the option, such as volume, implied volatility, bid and ask prices, and so on. Once you decide how many contracts you want to order, you can proceed by clicking on "Review" to complete the trade.

Selling options on Robinhood also follows the same straightforward procedure.

A Note on Selling

Pay close attention to the bid and ask values of an option if you are trying to sell it quickly, either to take your profits or if you want to get out of an option that is rapidly losing value. If you go at the market price and the option is rapidly losing value, you might have trouble selling it, and your order might just sit there. If this happens, go ahead and cancel the order and enter a limit order, placing your price that you'll accept equal to the bid, which is the price at which interested buyers are already offering.

Trader Levels

Brokerages don't just let anyone trade options, and not everyone can execute the same options strategies. The trades that you are allowed to enter into are determined by your trading level. Most brokerages have four trading levels.

Level 1

A level 1 trader can only perform one type of options trade – you can sell covered calls. That is you can sell call options backed by shares of stock you already own. This can be a viable strategy to generate income from your stocks, but you need 100 shares for each options contract you can sell. A level 1 trader can also sell a protected put, which means that the put is backed by sufficient funds in your brokerage account to purchase the shares of stock should the option be exercised.

Level 2

Most beginners are going to want to be level 2 traders. If you are a level 2 trader, you can buy and sell or trade options on the options market. In the lingo of stock traders, you can go long on calls and puts. Level 2 traders can also execute all the trades that level 1 traders can execute.

Level 3

Level 3 traders can execute all the trades that level 1 and level 2 traders can execute. However, they can also execute "spreads." That means buying and selling calls or puts simultaneously, as a strategy to minimize risk. Note that while level 2 traders aren't technically allowed to do spreads, you could do them by entering the position manually, that is, by purchasing each option independently.

Level 4

A level 4 trader is able to sell naked calls and puts, and execute all the possible strategies that are used with options trading.

Getting to Level 2

Most beginning options traders – if not all – are classified as level 1 traders, but you really want to be a level 2 trader so that you can make money buying and selling options. Becoming a level 2 trader is actually pretty simple. You just have to do an interview with your broker, and these days the interviews are conducted by computer, where you just answer a set of questions the app or website asks you. In order to be allowed as a level 2 trader, you will have to meet some basic financial and income requirements that are pretty easy for most people to meet. The place where you might mess things up is in stating what your goals are. To get approved for level 2, you need to be sure that you tell the broker that you are interested in short term investing and that you are interested in speculating rather than investing.

Generally speaking, speculating is not really "investing," instead you are betting that the price of the underlying asset is going to increase in value (or decrease in value, should you be buying put options). So you are interested in the short term price movements of the asset rather than investing hoping that the company has a cure of cancer, or that the company's long term fortunes are going to help fund your retirement.

Before you can trade any options, you’ll have to make sure that you are approved to trade at level 2, so take care of that as soon as you open your brokerage account.

Options Delivery and Settlement

When an option is exercised if you wrote it, then you are "assigned." If you are just trading options, buying and selling them, you cannot be assigned. Only the originator of the contract can be assigned. Settlement of options must take place within three days. However, stock settlement takes place the next business day, although the SEC allows a three day settlement period. Generally speaking, settlement can be cash or physical.

A physical settlement means a transfer of the financial asset, which is the shares of stock in this case. When stock options are settled, a physical settlement is used, so if you own a put option, you will proceed with the sale of the underlying shares to the originator of the contract. But if you own a call option, you will buy the shares from them instead. The shares will be sold at the strike price in either case.

If stocks with dividends are transferred, keep the ex-dividend date in mind. Whoever is the owner of the shares three days prior to that date will be the shareholder of record. That means that the person will receive the dividend payment.

Cash settlements are used for financial assets that are not easily transferred, such as in the case of Forex or commodities.

Since only 10% of options are exercised, that means 90% are not, and so settlement and delivery are actually rare. Most traders are attempting to earn money off trading the options themselves and don’t want the stock.

Chapter 3: Options Pricing

In this chapter, we are going to learn what factors influence options pricing and how they do so. It turns out that options pricing is pretty constrained and described by compact formulas, which makes it easy to simulate options behavior using mathematical models and even just Excel spreadsheets. You can find options calculators online that will let you enter in various properties of an option and get estimates as to how its price will change. The two biggest factors that make options prices move include the price of the stock and the passage of time if you understand that then you've grasped 2/3 of what you need to understand in order to trade options successfully.

Now let’s look into the details when it comes to determining options pricing.

Time Value

Every options contract has time value, but it's also subject to time decay. Time value is the price of the option that comes from the amount of time remaining until the option expires. The time or extrinsic value is not exact and can change on the basis of the price of the option relative to the market. To give an example, the more an option goes into the money, the less it's impacted by time decay. But one thing is certain; all options are impacted by time decay. Simply put, this means that the price of the options will decline as time passes.

For sellers of options contracts, time decay is their best friend. That makes it more likely the options will expire worthlessly, and the option won't be exercised.

For buyers of options contracts, time is your enemy. You are looking to profit before time runs out. Whether or not you can do so will depend on whether or not the option is in the money or not.

Also, remember that time value is also called extrinsic value. The option also has intrinsic value. This is pricing derived from the underlying stock. Properties that can influence it include price and its properties like the volatility. Extrinsic value comes from the outside.

When options are sold, they all have time value. The reason they have time value is that the more time there is until the option expires, the probability is increased that the option can go in the money at some point. And that is when the option is really worth something. But as time passes and the expiration date starts getting closer and closer, the less time there is for a stock to make a move. Of course, stocks to make significant moves over short time periods and even over a day or two, but the shorter the time left to expiration, the lower the probability that this will happen.

Let's look at a few examples. In order to understand how things work, it is helpful to hold variables constant and isolate the variable you are trying to learn about. That is a fictitious example, but once you understand how things work by examining them in isolation, you are going to be far more capable of understanding how the pricing of real options is changing and why.

In the examples in this chapter, we will begin with a stock with a $100 share price with 30 days left before expiration. We will set the implied volatility to 15%.

Let's consider an option which is at the money. If the strike price was $100, the call and the put for this option are priced at $1.78 and $1.76 respectively (remember to multiply by 100 in order to get the actual price you would have to pay to buy the option or the price you'd actually get selling the option).

Now let’s see how time decay impacts the option prices. Simply moving to 20 days left to expiration, we find that the price of the call and put options have declined to $1.45 and $1.44, respectively. Both have declined because the strike is equal to the market price, and the only thing impacting the price of the option is time decay. With only 20 days left to expiration, the options have less time value. At this point, 100% of the option value is extrinsic, that is determined by time value.

Now let's shift the clock again, to 10 days to expiration. Now the call option has dropped to $1.03, and the put option is $1.02. At 7 days to expiration, the call option is $0.86, and the put option is $0.85. Moving to 3 days to expiration, the call option and put option are both priced at $0.56. Finally, one day to expiration, the call and put option are both worth $0.32.

Time decay works in exponential fashion. What that means in practice is that the closer that you get to the expiration date, the faster the extrinsic or time value of the option decays.

But let us consider what would happen if the option went in the money, right at the last moment. First, consider what would happen if the stock price went up to $102 a share. In that case, it means the call option is "in the money." We find that the price of the call jumps to $2.00. The put would be virtually worthless.

On the other hand, had the price of the stock dropped by $2; instead, it would be the put that would be priced at $2.00, and the call would be virtually worthless.

Time decay always impacts options, except toward the end the intrinsic value (see below) can overwhelm it. The degree to which it does depends on how far in the money the option price has moved.

Now let us consider an in the money option. First, we'll consider a put option, and we'll say the stock price is $98 a share, with a strike price of $100. With 30 days left to expiration, the put option is $2.91. The call option is $0.94. So the call option, which is out of the money, is a comparative bargain, and if you are expecting the stock to rise over the next 30 days, it could be a good move to buy that call option.

At 20 days to expiration, if nothing else changes (stock price of $98, strike price of $100), the call option is priced at $0.65, and the put option is $2.64. This is an important thing to note – so even though the put option is in the money, we see a price decline. This happens as a result of lost time value.

At 10 days to expiration, the prices of the call and put have dropped to $0.31 and $2.30, respectively. At seven days, the put option is $2.19, and the call option is $0.20. Finally, with two days left to expiration, the put option is $2.02, while the call option is a mere $0.02.

The same thing happens to a call option that is in the money if everything but time decay were held constant. Right before expiration, the call option will still have some value, but it would steadily lose it. If the stock price were $102, and we had a call option that has a strike set at $100, the option price on the following remaining time frames: 30, 20, 10, 7, and 3 days to expiration, would be: $2.98, $2.68, $2.33, $2.21, and $2.05.

The takeaway lesson is that the time value of an option always decreases.

Intrinsic Value

Now let's have a look at the second biggest influence on the price of an option. Actually, it can be the biggest influence, and that is the stock price of the underlying. We can see how dramatic this is by looking at the previous examples, but imagining the option going further in the money, and we can also consider the out of the money case.

Something that happens is that the closer the option gets to the expiration date, the more impact is going to be felt by changes in the underlying share price. Ideally, you'd think of a $1 variation in the stock price as causing the option to change in price by $1, so multiplying by 100 shares you'd see the total price for the options move by $100.

Of course, in the real world, it doesn't work that way. The price of the stock on the market is not the only factor that impacts the option price. We will learn precisely how it works in the next chapter. But for now, you know that the price of the underlying stock influences what the option's price will be, and the more that the option suffers from time day and loses extrinsic value, the more influential the stock price.

Let's start with our option with 15 days left to expiration. The strike price is $100, and the stock price is $102. Under those conditions, the call is $2.52, and the put is $0.50.

Following the same procedure used in the last chapter, let's imagine that we hold everything constant except the variable we are trying to isolate – this time it's the underlying stock price. So we will stay at 15 days to expiration and see what happens.

Suppose that the stock price rises to $104. Then the price of the call rises to $4.17 – a substantial jump. And that is the appeal of investing in options, to make quick profits like that. If you have bought the call in the morning at $2.52 if you saw a rise in stock price like that – sell immediately and take your profits. The put option, on the other hand, dropped to $0.16.

Another $1 rise in share price to $105 causes the call option to jump to $5.09, while the put drops to $0.08.

Now consider the converse, which the share price had instead dropped from $102 to $97. In that case, the call would be $0.27, and the put would be $3.26. If the share price dropped to $96, then the call would drop to $0.14 and the put to $4.13.

Stock prices can move in big ways when major news comes out. For example, once when Facebook had a bad earnings report, share prices crashed from $210 to $170. People who held put options could profit handsomely. Of course, the trick is knowing which options to buy at any given time, or using strategies to profit no matter which way the stock moves.

The closer you get to expiration, the more influence the stock price has. Let's set up another scenario, the option is at the money with two days to expiration, and so the stock price is the same as the strike price at $100 when the markets open. In that case, both the call and the put are priced at $0.46. The prices of the options at this point come entirely from extrinsic or time value. When the strike price is equal to the share price, the option will have zero intrinsic value, and out of the money options have zero intrinsic value.

If the share price went to $101, the price of the call would jump to $1.12. The put would drop in price, all the way to $0.12.

Now let's imagine, in order to give some context to pricing changes so that you can start learning about things that can cause market moves, that the company has an earnings call that afternoon. Suppose their earnings beat expectations. As often happens, this causes a rally.

If the shares jump from $101 to $110, then the put is virtually worthless, and the call jumps to $10! So if you had purchased the call when it was at the money for $0.46, or $46 total, you could sell it for $1,000! Don't get too excited, that doesn't happen that often and it would be really difficult for you to know when that is going to happen, but it can happen.

Suppose that instead, the earnings call was a disappointment. Instead, the share price dropped to $89 a share. In that case, the call option would be worthless, and the put option would be $11, or worth $1,100 in total.

Remember that at the money options were both $0.46. This suggests a strategy – and that is that you could buy both call and put options with the same strike price and expiration date. In this case had you bought them at the money, your total investment would have been $46 + $46 = $92, but you would have made around $1,000 from one of the options going far in the money.

Of course, there is a change the earnings report wouldn't cause much fuss. The stock price could stay at the money, in which case your options would expire worthlessly, and you'd be out the $92 investment. If the stock moved a small amount, either way, you might be able to sell one of the options to break even or make a small profit.

So you see that this type of strategy can protect you from losses which are fixed, but if the stock makes a big move, you can possibly earn big profits.

The lesson here is that the underlying stock price has a large influence on the price of the options.

But before we go, let's look at one more scenario. Suppose you buy an out of the money call with 20 days to expiration. Can you make money? Yes, you could.

Suppose you are bullish on the stock. You could buy an option with a \$100 strike price, and we will suppose that this time, the stock price is \$95, so the option is significantly out of the money. A call option would be priced at \$0.13, so you could buy one for only \$13.

If by 10 days the stock price had risen to \$98 a share, your option would still be out of the money, but the underlying price or intrinsic value would win out over time decay. The call option would see its price rise to \$0.31, for a total of \$31. So you'd have the possibility to cash out for a modest profit. If it went up another dollar, the call option price would rise to \$0.60. If by seven days the stock price rose to \$100, so the option was at the money, then the call would be priced at \$0.86. Of course, the questions are many, you could sell now and make a pretty significant profit – selling something for \$86 that you bought for \$13 is a huge ROI, and that would be the smart move.

Of course, if it goes in the money by \$1 the following day, then the call would be worth \$1.40. So you'd miss on some upside if the stock price kept rising. But if the stock price dropped down to \$98 a share, then the call option price would crash to \$0.16.

Those are the kinds of scenarios you might be faced with. If anything, you should console yourself with the old advice that you are going to win some trades and lose some trades – so don't get too down if you lose a couple. Only start to worry if you are losing all the time.

Volatility

We discussed implied volatility earlier, and why you need to pay attention to it. Implied volatility can also impact options pricing. Let's see how that would work all other things being equal.

First, consider our option at the money, so we have our \$100 strike price, and the share price is also \$100, with 20 days left to expiration. Now suppose the volatility is 15%. The call and the put are priced at \$1.45 and \$1.44, respectively. A \$1 rise in share price would cause the call to jump to \$2.02, a 39% increase.

If the implied volatility were instead 20%, then the call would be priced at $1.88, and the put would be priced at $1.86. If the price went up to $101, the call would jump to $2.43. That's a 29% increase in price.

So a higher implied volatility means higher prices. However, notice that the option with the lower implied volatility increased more in the price for the given change in the underlying stock price. That's because of where we are starting from, when implied volatility is lower, the starting price is lower, and so you get a bigger increase in percentage terms. But it's not as relevant as the fact that the stock with the higher implied volatility has significantly more value.

Since volatility causes higher options prices, many traders look for options with higher implied volatility, but that isn't necessarily going to be your only consideration or always matter.

Risk-Free Interest Rate

Finally, you need to learn that the risk-free interest rate can influence options pricing. It is related to the interest you'd earn if you invested in U.S. Treasuries. A higher interest rate can cause option prices to increase. However, the impact is modest, and the interest rate is unlikely to change much over the lifetime of most options. If you invest in LEAPs, that have expiration dates of one year or more in the future, then this might be a consideration for you. In most cases, it is not going to be all that important. As recent history shows, even a 1-2 year period doesn't necessarily go to be much change in interest rates, and the impact is relatively small compared to the other variables.

Summary

So before we move on a quick summary. The most important factor is the share price of the underlying stock, and its relationship to the strike price – is it the same, higher, or lower. The second most important factor that influences prices of options is time decay, or how long until the option has to expiration. But remember, if the option is in the money, time decay isn't necessarily that important (but of course the fact that options expire is always important, make sure to close your positions). Finally, implied volatility can influence options pricing, and the more the volatility, the higher the price of the option all other things being equal.

Chapter 4: Options Greeks

Now that we know what influences the prices of options, we are going to make that more quantifiable. This is done using the so-called "Greeks," which are five parameters denoted by Greek symbols (or letters) that quantify the way the price of an option will change. You don't have to know how they work precisely, only what they mean. At any given time, you can look them up to get their values. We start by looking at intrinsic value, that is, how the price of the option changes or varies with the underlying stock's price.

Delta

If you look at the data for any option, you are going to see five Greek letters (usually expressed by their English spelled names) delta, theta, gamma, vega, and rho. The first of these is delta, which tells you how the price of an option changes with the price of the underlying stock.

We noted earlier that the price of an option doesn't have a 1-1 change in price in relation to the stock. You can see exactly how it will change by looking at delta. First, we'll consider call options. So if delta is 0.46, that means if the underlying stock price rises by $1, the price of the option is going to increase by $0.46. If delta was 0.74, then the price of the option would rise by $0.74 if the price of the underlying stock went up by $1.

Put options have a negative delta, which just indicates that a put option has an inverse relationship to the price of the underlying stock. That is if the price of the underlying stock goes down, the value of a put option goes up, and if the price of the underlying stock goes up, the value of the put option goes down.

So if delta is -0.26, and the price of the underlying stock went up by $1, the value of the put option would drop by 26 cents. On the other hand, if the price of the underlying stock had dropped by $1, then the price of the put option would rise by $0.26.

Delta is dynamic, and the number always changes when some important parameter in the options price changes. Consider an option on a stock that is trading at $102 with a strike price of $100, with 14 days to option expiration. In this case, the price of the call option is $2.48, and delta is 0.75. The price of the put option is $0.47, and delta for the put option is

-0.25. So if the price of the underlying stock goes up by $1, we expect the call option to rise to $2.48 + $0.75 = $3.23. The price of the put option would decrease to $0.47 - $0.25 = $0.22.

That's just about what happens, but in reality, the relationship isn't quite exact since other things impact the price of the options. The call option increases to $3.84, and the put option declines in price to $0.27.

We said its dynamic, and what happens when the share price rises by $1, is the delta values for both options change as well. Now delta is 0.84 for the call, and -0.16 for the put.

That tells us something important, namely that delta is higher the more in the money the stock is. We can see this looking at some real options. Considering an IBM $124 call that expires on 6/28, it has a delta of 0.967. A $139 call that expires on 6/28 has a delta of 0.5388. The share price is $139.20, so the $124 call is more in the money. The $139 call is practically at the money, and we learn a second important fact about delta, that is that at the money options will have a delta that is reasonably close to 0.50.

Since the more in the money you are, the higher delta, that means in the money options can benefit (or be hurt by) a $1 change in the price of the underlying stock.

Something else that happens is that if the option is in the money, the closer you get to expiration, the higher delta goes. For our example of an option with a $100 share price, if the underlying stock price remains at $103, moving to 7 days from expiration, delta jumps to 0.92 for the call. Moving to 3 days to expiration, delta is 0.98. So if you are expecting a stock price to move a lot in the next few days, getting an option that will expire soon before the move happens could be a worthwhile investment. Look for events that could impact the price, such as an earnings call or product announcement.

Remember at the money options have a delta of about 0.50, and when you get close to expiration, delta for a call will be exactly 0.50, and for a put, it will be -0.5, if the option was at the money. Actually buying at the money options can be quite difficult, so you'll probably have to settle for something close.

If an option is out of the money, the closer to the expiration date, you get the smaller delta gets. In fact, a few days away from expiration delta can get vanishingly small. An out of the money call option for a strike price of

$100, share price of $97 with three days to expiration will have a delta of 0.02.

The delta for the same put option will add up the difference to 100 (but remember it's expressed as a negative value). In this case, a put option with the same parameters, so a strike price of $100 – will have a delta of -0.98 if the underlying price is $97. In that case, the put would be worth $3.00, and if the underlying share price dropped to $96, the price of the put would rise to $4. Then you'd see delta increase to -1.00 for the put and drop to 0.00 for the call.

If the stock had moved the other way, risen in price by $1, then delta for the put would drop to -0.92 instead, and the price of the put would drop to $2.04.

The bottom line is delta will give you a good estimate of how much the price of the option will change when the price of the underlying stock changes by $1. If it's a call option, the relationship is direct, and delta is expressed as a positive number. For put options, since the relationship is an inverse one, delta is a negative number. And remember that if you take the absolute value of delta for the put option and add it to the delta value for a call option that has the same strike value and date of expiration, they will sum to 1.0.

Gamma

Gamma is like the second derivative. In other words, it tells you how delta itself changes. This is important since we noted that delta was dynamic. However, beginning traders don't need to dive into this too deeply, but you can check gamma to see about how much delta will change if there is a $1 change in the price of the underlying shares. Gamma has the same value for both puts and calls. So if Gamma were 0.22 and delta was 0.24 for a call option, and -0.76 for a put option with the same strike and expiration date, we'd expect a $1 rise in share price to cause delta for the call option to increase to 0.46, and the delta for the put option would change to -0.54. That is about what would happen, but remember if the option was at the money the values of delta would move to 0.5 and -0.5, respectively.

Theta

When examining options, theta is a very important parameter among the Greeks. What theta gives you information about is the time decay of the option. Theta is expressed as a negative number, reflecting the fact that time decay causes a decrease in option price as time goes on. Let's consider a couple of examples.

Suppose that we have call and put options with a strike price of $100 with three days to expiration. The price of the call is $1.20, and the price of the put is $0.20 if the share price of the underlying stock is $101. In this case, theta is -0.073 for both the call and the put. That tells us that if nothing else changes, the price of each option will decrease by $0.073. The call option is priced at $1.20, and the put is priced at $0.20. Moving to 2 days to expiration and leaving everything else the same, we find that the price of the call option drops to $1.12, and the price of the put option drops to $0.12, so it moved in almost exact accordance to what was expected. The following day theta has increased to -0.079, reflecting the fact that time decay happens more rapidly the closer you get to the expiration date of the option.

In fact, with everything else unchanged, 20 days to expiration theta is about half as strong, at -0.035. That reflects one of the fundamental truths of options, that is that time decay happens in an exponential fashion, with time decay happening faster the closer you get to expiration.

One of the things that help make options seem complicated is that all of these variables are interdependent. So at 20 days to expiration, suppose the stock price shot up to $108. In that case, theta decreases to -0.005. So it's only 1/7th of the previous value. It decreases for the put option as well.

Theta is also proportional to share price. So theta is larger if the share price is larger. Consider a stock with a share price of $975, and a strike price of $1,000. In that case, theta is -0.282 for the call option and -0.274 for the put option. That means if a day passes and nothing else changes, the value of the call option (which in this case is $5.15) will drop by about $0.28, and the value of the put option will drop by about $0.27.

The fundamental lesson here is the same as it was previously, that time decay is an important fundamental when it comes to options pricing. Check the Greek theta to get an idea of how the price of the option is going to decay by the following day if all other things are held equal.

Vega

The next Greek that we are going to meet is Vega, which tells us the relationship between the price of the option and the implied volatility. What Vega tells you is how sensitive the option is to changes in the implied volatility. Generally speaking an in the money option is less sensitive to changes in implied volatility, while an out of the money option is more sensitive to changes in implied volatility. Specifically, vega tells you how much the price of the option will change if the implied volatility changes by 1%. Remember that options that have higher implied volatility are worth more money.

Suppose a stock is trading at $500 a share, and the strike price is $490 with 10 days left to expiration and an implied volatility of 23.5%. Vega will be 0.285. A call will be priced at $13.73, and the put with the same parameters would be priced at $3.69. If the implied volatility increased to 24.5%, then the call would be priced at $14.02, and the put would be $3.98. So, in other words, Vega tells you how much the price of the options increases for every 1 point increase in implied volatility. The closer you get to the expiration date, the smaller vega gets.

When you are in long positions, vega is positive, and it's negative for short positions.

Rho

Rho is a measure of the options pricing's sensitivity to a change in the risk-free interest rate. Since interest rates don't change by that much or that often these days, rho isn't paid much attention to. In a radically changing high-interest rate environment such as existed in the late 1970s, rho would be a more important parameter to pay attention to.

Black-Scholes Equation

The Black-Scholes equation is a mathematical model that describes how derivatives like options behave. It incorporates the option as a function of the underlying stock price and time, the volatility of the stock, and the risk-free interest rate. The equation tells us that gamma represents the gain from holding an option. The equation gives us the "riskless" returns where gamma offsets theta decay. The Black-Scholes equation involves some pretty advanced mathematics, and those with the interest and skills can look up references if they are interested in getting a deeper understanding of the equation. It is a partial differential equation that can estimate the future price of an option. Most options traders don't have to know about the Black-Scholes equation, however. You can simply use tools like spreadsheets or online models that people have created to put the equation into practice for you, and you can play with the various inputs to estimate the future price moves of options you are interested in investing in. The model led to a

Nobel Prize in economics. One important fact is that the model is set to work with European options that can be utilized only on the expiration date, and it does not work with American options. However, there are many mathematical models that work quite well for American options.

Chapter 5: Options Trading as a Business

If you are only planning to do options trading as a hobby, you can buy small numbers of options and try to profit on them and see what happens. Most people hope to build up their options trading activities, eventually turning it into a business so that they can earn a living from it and drop the "9 to 5". In this chapter, we provide some tips and advice for turning your options trading activities into a business that makes real money.

Start Small

The first thing to do is to learn the way of the industry. Having smaller ambitions that can be realized is going to be a part of laying a successful foundation for an options trading business. Many new traders want to get going fast and so purchase lots of options simultaneously, and if they can get higher approval levels, enter into multiple strategies all at once. The reality is that options trading is complicated and a lot more complicated than buying and selling stocks, and so you should keep things under control rather than jumping in and getting in a situation where your mind cannot possibly fully comprehend, analyze, and keep track of a dozen complicated options trades.

Begin by limiting yourself to five companies and/or index funds to use in your trading. In fact, during the first three months, you might limit yourself to 2-3 companies. You should study the stock of those companies and learn its fundamentals, studying the stock charts to see how the stock has moved in the past. Learn important facts about the companies such as when they are going to have their next earnings call.

You should also learn some basics about spotting and tracking trends in the markets. This can include learning how to read candles, using moving averages, and spotting levels of support and resistance, which can tell you when to enter a trade and when to get out of a trade.

Starting small also means setting small goals and meeting them, rather than hoping to make $10,000 a month in profits right away. So plan on entering trades with a goal of making a hundred or a few hundred dollars a week, and realize that you are not going to win at every trade. As you gain experience, you can increase the sizes of your trades. But rather than entering 10 different trades you should always aim to do multiples of the same options contracts instead, so you don't run into the problem of having too much to manage at once. Remember that options have an expiration date and change fast, so keeping close track of them is important.

Adequate Capital

You can trade options for as little as less than $100, but it is unlikely that you are going to be able to build a full-time income that way. You should plan on setting up an account with $5,000 or more in capital to get started. If you don't have access to that much money now, you can start trading 1-2 options per week using small amounts of money to start learning and trying out different strategies. But plan on having a minimum of $5,000 when you transition to doing options trading as a business and plan on growing the size of your account with time.

Use a Broker with Complete Resources

We've mentioned Robinhood, and it's a great platform for beginners. If you've never traded options before, we recommend that you open a Robinhood account and spend 2-3 months trading on Robinhood to gain some experience.

However, when you are ready to transition to trading as a business, a more comprehensive platform is going to be necessary. One thing you'll want to make sure of is that you can sell options naked. That isn't possible on Robinhood.

You should also seek out a broker that has comprehensive resources that can be used to do all of your research, analyze your trades, and execute the trades all in one platform. A good example is tastyworks.

Make Sure You Have Proper Computer Equipment

As you are trading and keeping track of your trades on a real-time constant basis, you are probably going to want to have multiple computers or computer screens so that you can easily check things. As an options trader, you're going to be wanting to track your options, but also keeping a close eye on the stock itself and even on the news about the company. At the very least, you should be able to comfortably view the stock and your options simultaneously. Depending on your brokerage, you may be able to set things up so that you can see everything associated with one stock ticker with a click.

Make a Business Plan

You wouldn't open a restaurant without making a business plan, and if you are going to have a trading business, you should treat it the same way. Write out a business plan that outlines goals, expenses, and other items so that you have everything laid out, including capital that will be available for funding. Simply starting to buy and sell options and seeing what happens is not a business, although it can be a start.

Also, keep track of all your trades, so you can carefully monitor profit and loss. Part of your business plan will be setting goals for annual returns. Possible returns on options are quite high compared to stocks, but you should set realistic goals in order to ensure you're staying grounded and meeting them. Also, remember that you have to take losses into account and not just looking at wins to determine your total return on investment.

Decide On a Business Structure

Are you going to set up a business to run your trades? It's definitely worth doing so. Otherwise, you're going to have a hard time deducting losses from your taxes. The IRS views trading as ordinary passive income, and there are limits to what you can deduct. You can try to get the "trader" status, but this is difficult. The easiest way to set things up so that you can fully deduct losses and expenses, and possibly offer yourself bankruptcy protection if it came to that, is to set up an official business entity that you can use to trade through. You will not be doing this as a sole proprietor but will instead need to set up an LLC or S-Corporation. An LLC is simpler to set up and acts as a pass through, but you will be able to manage your expenses deduct everything as a professional trader and then pass on the profits as income to your personal life. The details of this are beyond the scope of this book, so speak to an accountant about setting this up if necessary. Note that individuals who want to be treated as professional traders by the IRS have to be qualified, an LLC set up for trading purposes does not. It's very difficult to be treated by the IRS as a fulltime trader as an individual, and you have to derive the majority of your income from trading to qualify. It turns out that even people who derive their full-time income from trading have trouble qualifying, and when you don't qualify, you're going to have a hard time deducting all of your expenses and losses. So starting an LLC and having it to the trading and then pass the profits onto you as the owner is probably the best way to get started trading.

Stay Focused

It is better to stay focused on one type of trading, learn it thoroughly, and commit to it 100%. Don't be all over the map, such as trying to trade Forex or Crypto and options at the same time. If you are going to try options trading, then stick to options trading. Be serious about if you want success to the level of having it provide a full-time income.

Are You Going To Utilize Debt

This is a personal decision, but it's not recommended that you utilize debt unless there is some compelling reason that you start out with an account with a particular size. The ease of doing small options trades and earning profits means that most people are better off starting small and then reinvesting profits to increase the size of their trades going forward. If you take out loans to get started, keep the loan size reasonable and don't get more loans if you have a string of losses, you don't want to dig a hole you can't get out of. Set a reasonable maximum for borrowed capital such as $5,000-$10,000.

Set a Time Limit

If a year goes by and you are constantly losing money, you will have to evaluate whether or not options trading is for you. The reality is it’s not for everyone. That doesn't mean that stocks or trading full-time isn't in your future, but if it is not working out after putting in significant effort, you should re-evaluate your position and consider alternatives. For example, maybe you would be better suited to work as a swing or day trader or get into Forex, rather than trading options.

Constantly Educate Yourself

You should be continually improving your knowledge of the field. That means educating yourself by reading books on options trading, watching YouTube videos, taking Udemy courses, and possibly taking more expensive courses. You wouldn’t try becoming an engineer, doctor, or lawyer without getting the education first, so treat trading the same way if you are expecting to earn a full-time income from it.

Chapter 6: Risks and Benefits with Options

It is imperative to know the risks and benefits that are associated with options trading. In this chapter, we will consider this and provide an example of trading a stock and buying the options on the stock instead. We will find out that when trading options, the return on investment is much higher than what you can earn trading stocks, which is what makes options appeal to many traders as opposed to swing or day trading stocks.

Compare Costs of Entry

If you want to be a day trader, you need to have a $25,000 account with your brokerage in most cases. Day trading is a strictly regulated activity, and the risks of losing all of your capital are high.

Swing trading doesn't have such minimums, but in order to earn profits on your trades, you are still going to have to invest significant sums of money. Let's consider the possibilities of earning profits and compare that with trading options.

For this example, we will consider trading Facebook. Over the past year, Facebook has ranged over $126 a share to $190 a share. Over the past month, the range has been $164 to $194 a share. So let's suppose that you have a swing trading account with $5,000 in capital. For the sake of our example, we'll assume that you happened to make a great trade. On June 4th of this year, Facebook was trading near the $164 low. So we'll say that you invested in 30 shares, for a total investment of 30 x $164 a share = $4,920. By June 18th, Facebook had increased in value to $194 a share. Let's say that at $190 a share, you decided to sell.

The cash you'd receive from the sale would be 30 shares x $190/share = $5,700.

The total profit would be (ignoring commissions and any other expenses) $5,700-$4,920 = $780.

That is a pretty solid profit. The return on investment or ROI would be:

ROI = profit/investment = $780/$4920 x 100 = 15.85%

A 15.85% return in the stock market is a stellar result, and assuming you had multiple trades going on during the 14 day period, the $780 in profit would be a solid contribution to your income.

Now let's suppose that you bought options instead with the $5,000. This time we'll buy call options that were slightly in the money, so when the share price was at $164, we'd buy call options with a strike price of $163. Facebook has high volatility, and the implied volatility for these options is 28%. The price of a call option is $5.88, so each contract would be $588. So we'll buy 8 options contracts for an initial investment of $588 x 8 = $4,704.

Now, the 14 days pass, and Facebook rises in price to $194 a share. Time decay hurts the options, but the rise in share price is going to overwhelm that. The call rises in value to $31.03, so each option is worth $31.03 x 100 = $3,103. In total, we have eight contracts that are worth $24,824. Our total profit is this figure less our initial investment, which would be $24,824 - $4,704 = $20,120.

The return on investment in this case is:

$20,120/$4,704 x 100 =427.72%

Of course, most professional traders don't buy straight call options because of the high risk – but this illustrates in dramatic fashion the benefits of trading options over stocks if you are going to be a short term trader and speculator.

The return on investment for options is simply far higher than what you can realize trading stocks.

Secondly, the barrier for entry is far lower. One option contract would have realized more profit than a $5,000 investment in Facebook for the purposes of making a swing trade. Remember the option initially cost $588, but when the stock peaked it was worth $3,103. So simply investing $588 in the option would have realized a gain of $3,103 - $588 = $2,515. That is more than three times the profit realized from the swing trade – and we only had to invest a fraction of the money (about 13%) of what we invested in doing the swing trade.

This illustrates the more measured approach beginners should take with options. You can build up a full-time income doing a smaller number of trades, so it is not necessary to start out risking thousands of dollars at a time.

Risks of Options Trading

All investment activity carries risk, and that includes options trading. Strictly speaking, if you are only buying and selling options (and not writing options contracts, i.e., not selling naked or covered/protected calls and puts), your risk is limited to the loss of capital you spent to buy the options.

However, there are several ways to mitigate your risk. We will be investigating specific options strategies in the following chapters, but keep in mind that as a beginning trader, those strategies may not be available.

However, you can use some common sense. If a trade is not going in your favor, don't hold onto the trade, hoping it's going to turn around for you. It's true that there is a chance the stock will turn around in the future, but remember that with options, you have time decay working against you. So the best thing to do when a trade is not going in your favor is to close the position to minimize your losses. At that point, you have two possible ways to move. You can simply reinvest the money in a different stock. However, if you have good reason to believe that the stock is going to increase in value, but you need more time, you can reinvest the money in options with later expiration dates. Taking this approach might result in a short term loss, but the size of the loss will be smaller than simply letting the options expire.

Of course, you may be investing in puts expecting the share price to drop, but the discussion and approaches are the same.

The key thing to note is that risks can be mitigated. Although as a beginning trader you can’t officially do certain types of trades, you can set them up manually to in effect execute the trades.

Your Risk is the entire amount of principle

So to summarize, as an options trader, that is someone who buys options on the market and then tries to trade them for profit, your total risk is the amount you spend to purchase the options. Although buying and selling options seems easy when we discuss it on paper, and you definitely can find it easy to make some winning trades, the risk of loss is real, and it is not trivial. Remember that most options expire worthlessly, and that means that the traders lost their investments. Be prepared to lose all of your capital, which will be the premium paid for the option. This is one reason why you should approach small trades, with the goal of executing a larger number of small trades rather than trying to hit one big home run. That way, you only lose small amounts at a time, and if you are engaging in multiple trades, the profits from your wins should exceed the losses so that you can be profitable overall.

Writing Options Contracts

The benefits of writing options contracts are that you can generate regular income by selling the options and collecting the premiums. This can carry some risk, from relatively low risk to extremely high risk.

For a covered call writer, you already own the shares. Therefore the risk to you is that you will have to sell the shares. This is a low-risk strategy, and that is why brokers allow level one traders to do covered call writing. Even though you risk losing ownership of the shares, the worst case scenario is that you are going to earn money from the premium and then receive payment for the shares. The important thing to note here is that you should be smart about how you set up your covered calls, don't set up a covered call with a strike that is lower than what you paid for the stock – so that in the worst case scenario you break even on selling the shares (but also profit from the premium). You can then reinvest the funds, either in the same stock or a different one.

For a protected put, the risks are a little bit different but also minimal, because you will possibly lose some capital that you have to use in order to purchase stock. You'll have to do that buying the shares at a higher price than they are trading for on the market, so it might seem a bit foolish, but at least with a protected put you walk away owning the shares of stock. Unless it was a really bad investment, you will have an asset that might appreciate in value in the future and so mitigate your losses, or even possibly turn them into gains. If the stock gains in price, you can simply sell the shares to get your capital back.

Naked calls and puts carry serious risk, and that is why they are restricted to experienced, level four traders. In the case of selling naked calls, your theoretical risk is unlimited. The reason is because, in theory, the price of a stock can go up to any value. Of course in the real world that isn't the case, real stocks may rise quite a bit over a short time period, but they don't shoot to infinity. That said, you could put yourself in a position of incurring serious losses. Suppose that you had sold a naked call on Facebook with a strike price of $170. You would have earned $299, or $2.99 a share, but if the option was exercised when the share price was $194, you would be put in the position of having to buy the shares on the market at $194 and then selling them at $170, so be facing a loss of $24 a share. That would be mitigated a little bit from the $2.99 you earned from the premium, so your total loss would be somewhere around $2,100. The loss is not infinite, but it is substantial.

Summary

When a trade goes right, the benefits of options trading far exceed those of swing or day trading stocks because the ROI is far higher. Secondly, you can get into options trading only risking a small amount of capital.

However, remember that the capital you invest is at risk of a total loss. Losses can be mitigated using certain options trading strategies, and/or by planning multiple trades. However, keep in mind that not all options trading strategies are available to all options traders depending on the level you are assigned by your broker.

In the case of writing options, the benefit vs. risk analysis in part hinges on the fact that most options are not exercised. Only 10% of options are exercised, and as we'll see, there are strategies you can use to minimize risk.

Chapter 7: Profit with Options Strategies and Positions

Because you can buy and sell options and options come in two flavors, calls that benefit from a rise in share prices and puts that benefit from a decline in share prices, one of the major advantages of options trading is that you can do a lot of different things that simply are not possible when it comes to trading stocks. This gives rise to many different strategies that can be utilized to minimize losses. Some of the strategies also minimize potential profits, but with practically guaranteed earnings, most people are willing to make that trade-off. Keep in mind that your broker may require a higher trading level to execute some of the strategies, and so not all traders may be able to enter into all of these trades without gaining more experience first. Note that spreads involve buying and selling options simultaneously so will require level 3 trading status.

Long Straddle

A straddle involves buying a call and a put option for the same stock, with the same expiration date and the same strike price. Long simply means we buy both options.

In an earlier chapter, we saw how that could work out if you bought an at the money call and at the money put at the same time. While your broker might require you to have level 3 status to enter into a single trade doing this, you can manually set one up without being level 3 by simply buying the appropriate options.

Let's look at a few scenarios. For our examples, we will assume a share price of $190, implied volatility of 24%, and imagine that the options are purchased with 30 days to expiration.

Suppose that we buy options with a strike price of $180. A call will be $11.60, and the put will be $1.56. The total investment is $13.16 (x 100 = $1,316).

In the first scenario, suppose that share price rises by $5 within 14 days. At this point, the put is $0.22, and the call has risen to $15.24. We can close our positions (sell both, the put at the loss) and earn $15.46 (x 100 = $1,546). Our profit is $230.

If instead, the share price had dropped, if it ends up at the money, then we'd be facing a loss. The call and put options would be priced at $3.62 and $3.60 respectively, leaving us with a total of $7.22. We would sell and take the loss or wait it out to see where the price moved in the coming days.

To make a profit from a drop in share price, it would have to drop to less than $167 a share. This example illustrates that buying a straddle that is strongly in the money for the call option strongly favors the call, in that the share price would have to drop considerably for the put to be profitable. The reverse would be true if we chose a strike price in such a way as to have an in the money put. So a move to a lower share price would make the put quite profitable, but a move to a higher price would have to be dramatic to make the call, and therefore the trade, profitable.

Following the earlier example, if the share price were $190 and we bought a call and a put at the money with 30 days to expiration, the cost would be $3.82 + $3.80 = $7.62, for a total investment of $762.

After 14 days, if the share price had risen to $195, the call would be $6.88, and the put $1.85, so we could sell both for $8.73, or a total of $873, giving a profit of $153. The more the share price went above the strike, the higher the profit. At a $200 share price, we'd be able to close the call and put at $10.81 and $0.78 for a total of $11.59, or a total profit of $397.

If instead, the share price dropped below the strike price, we’d be in a similar situation but making money from the put. If it dropped $10 below the strike price at 14 days, then the call would be $0.67, and the put would be $10.65, nearly in reverse to the situation of a $200 share price.

If the stock stays close to the strike price, you'd be faced with selling the options at a near break-even price or at a loss. Waiting until close to the expiration date can ensure losses. Maximum loss is the amount spent to purchase the options.

These results indicate that for a straddle, the more dramatic the move in stock price, the better the results, and the safest approach is to buy close at the money or close to at the money. You can buy slightly in the money for the call or put if you expect the stock price to rise or fall, using one of the options to mitigate possible losses if your speculation is wrong.

Strangle

A long strangle is also a method to mitigate risk by purchasing two options. In this case, we buy two options with different strike prices. The idea, in this case, is to be insensitive to the directional movement of the stock price. The options are purchased out of the money, so you want a low strike price for the put option and a high strike price for the call option.

Returning to the previous example, we again assume the share price is $190 a share with 30 days to expiration. Now we will purchase a call option that has a strike price of $195, and a put option with a strike price of $185, so both are out of the money. Since the options are out of the money, the initial investment is cheap, relatively speaking. The call option will cost $3.17, while the put option will cost $3.01, for a cost of $6.18 or $618 for the total investment.

For a strangle to be profitable, the stock will have to move even more than for a straddle.

At 16 days to expiration, suppose that the stock price has risen to $200. The call is now worth $6.97. The put is worth $0.25, for a total of $7.22. So you could sell both options to close your position, taking a profit of $129.

If instead, the stock price were to drop to $180, the call would only be worth $0.22, but the put would be worth $6.67, so your profit, in this case, would be $71.

A dramatic move can make this strategy very profitable. If instead, the share price dropped to $160, while the call would be virtually worthless, the put would shoot up to $24.98, for a total earning of $2,498, giving you substantial profits. A similar situation would happen in reverse for a dramatic move to the upside.

So the advantages of this strategy are that you profit no matter which way the share price moves, provided the move is large enough. However, the downside is your profits are limited unless there is a dramatic move in the share price. So if you are anticipating a large move in the stock price but aren't sure which direction it is going to go (such as with an earnings call), this could be a viable strategy.

Spreads

So far, we've been looking at strategies that anyone with a level 2 rating or above can implement. Even if you aren't explicitly approved for strangles and straddles, you can still implement them by manually buying the options.

Now we get into more advanced territory because these strategies require the sale of an option, and you have to get brokerage approval to sell options, even when they are part of a strategy like the one we are going to investigate here.

A spread is the simultaneous purchase and sale of options for the same underlying stock, but you buy and sell a put option and call or vice versa. They have different expiration dates and/or different strike prices, leading to many possibilities.

A vertical spread involves buying an option and selling an option but with different strike prices and the same expiration dates. The goal of a vertical spread is to limit risk and capital requirements. To sell a call, you either have to own 100 shares of stock or be able to purchase the shares, that is, have enough capital on hand to make the trade in the event the option was exercised, no matter how unlikely that may be.

Remember that you can take the examples to expiration, in which case out of the money options will expire worthlessly. But for our example here, we will consider closing the position as well.

So let’s take an example. You can use out of the money calls to do the spread. We can sell a call with a given strike price, and then buy another call that has a higher strike price. Suppose our stock is trading at $160 a share. We could sell a call with a strike price of $165 for $2.41. Then we could buy a call with a strike price of $175, for $0.53. The net credit to our account is given by the difference, and so is $2.41 - $0.53 = $1.88.

Now let's go to 15 days to expiration and look at three possible scenarios. The first scenario is when the stock prices rise substantially, so that both calls are in the money. So we'll pick a share price of $190.

In that case, the $175 call is worth $15.19, and the $165 call is worth $25.02. This is a bad situation since we sold the $165 call. There would be a risk it would be exercised, but we can use the following strategy which limits losses. First, we can sell the $175 call. Then we buy back the $165 call, and our total losses are limited to the difference, which is $9.83, so a total loss of $983. But remember the initial credit of $188 that helps mitigate the loss.

Suppose that we had sold the $165 call naked, without using a vertical spread. Then our total loss would have been $25.02 or $2,502. So we saved ourselves quite a bit on the loss.

Note that the difference in strike prices limits the losses in this case where the stock price rises above the higher strike price, to any value. So for this example, the losses are limited to $10. This is easy to see by plugging the numbers into an options calculator. You find that if the share price rises to $250, the $165 call is $85.02, but the $175 call would be

$75.02. If the share price increased to $500, then the $175 call would be priced at $325 and the $165 call at $335.

So that is the power of this technique, the difference in the prices – and therefore, the maximum loss – is always the difference in the strike prices. So you can set your maximum loss by choosing your strike prices appropriately. Also don't forget that you can add in the initial credit, which for this example was $1.88 or a total of $188.

Now suppose that the share price goes between the two strike prices, so above $165 but less than $175. We will conveniently choose $170. In that case, the call option with the strike of $165 is worth $6.36. The $175 strike is worth $1.43. So our total loss would be $6.36 - $1.43 - $1.88 = $3.05. Again, the loss is limited.

Break-even is the price paid to enter the position plus the short strike price. In this example, that is $1.88 + $165 = $166.88. If the share price is below $166.88, then the spread will be profitable. Anywhere above this price, there will be losses, limited to the difference between the strike prices. Of course, you would choose a smaller range than the one selected here, which was for illustration.

So if the stock price dropped to $160, the option both options expire worthlessly, and we keep the premium.

To summarize:

- Maximum profit is the credit you get for entering the vertical spread. That is the difference between the option you sell and the one you buy.
- Maximum loss is the difference in strike prices minus the amount credited for entering the trade. In the example given, the difference in strike prices was $10, but the account was credited $1.88 for the spread, so the maximum loss is $10 - $1.88 = $8.12.
- Capital requirement is equal to the maximum loss, so you need $812 to enter this trade, which is a lot lower than the capital requirement that would be required just selling a call.
- A vertical spread allows you to enter a trade without predicting how the stock price will move.
- The probability of profit is higher than the probability of loss, even though the potential magnitude of losses will be higher than the magnitude of profit.

Bull Call Spread

A bull call spread is a trade to enter when you believe that stock prices are going to increase by a small amount. Like the other strategies considered, losses are limited, but it also limits potential profits. Since you start off with a loss, it's called a debit spread.

This strategy involves buying and selling two call options with the same date of expiration but different strike prices. You buy a call option that is out of the money, and then sell a call option with a higher strike price (so it's also out of the money). Suppose that our stock was trading at $140 a share. We could buy a call option that has a $142 strike price with 30 days to expiration for $2.97. Then we could sell a call option that has a $144 strike price for $2.23. We start out at a loss of $0.74. If the share price rises to $145 by one day to expiration, the $142 call is worth $3.04, and we can sell it. The $144 call would be worth $1.33. We can buy it back, so our total profit would be $3.04 - $1.33 - $0.74 = $0.97 = $97.

If the stock price were to drop below the lower strike price, both options would expire worthlessly, and the total loss would be limited to the difference in option premiums paid to enter the position, which in this case would be $0.74.

The breakeven price is the strike price for the long call + net premiums paid. In this example, the call we purchased had a strike price of $142, and the total premium paid was $0.74, so the break-even price is $142.74. We make a profit for any share price that is higher than $142.74.

For example, if the share price is $143 at 1 day to expiration, the option we sold will expire worthlessly, but the option we purchased could be sold for $1.32. Subtracting the initial debit, the net profit is $1.32 - $0.74 = $0.91 for a total of $91.

Bear Call Spread

A bear call spread is a strategy using two call options when you expect a modest decrease in price. The two call options will have the same date of expiration but different strike prices. You sell a call with a lower strike price and buy a call with a higher strike price. The maximum profit is the net premium credited to your account, which is the premium of the lower strike price call you are paid less the premium you pay to purchase the higher price long call. The maximum loss is limited to the difference in the strike prices less the net premium paid.

Bull Put Spread

This is a credit spread involving two put options. Both put options will have the same expiration date. In this case, you sell a put option that has a given strike price and then buy a put option that has a lower strike price. In an opposite manner to a bull call spread, the profit is realized by a net credit received from the sale of the put option with the higher strike less the purchase of the second put option. This is the same for maximum loss; it is the result when the net credit from the sale and purchase of the puts is subtracted from the strike prices. This strategy seeks to profit from a small increase in share price over the lifetime of the option.

Bear Put Spread

A bear put spread seeks to profit from a modest decline in the share price. In this case, you buy and sell two puts with the same expiration date. You buy a put with a given strike price set to profit from a decline in stock price, and then sell a put with a lower strike price. This is a debit spread, so the sale of the put offsets the investment in buying the first put. In this case, the maximum loss is the net premium paid. So if you buy a put for $1, and sell a put for $0.75, the maximum loss is $0.25, or $25 in total. The maximum profit is the difference in the strike prices less the net premium paid.

Rolling Your Positions

You can "roll” your positions, which means buying and selling options at new expiration dates, to close and reopen your positions. This can be done if it appears a trade you've entered isn't going to work. Strike prices can be kept the same or modified. If you have a spread, you might change the range between the two strike prices. Rolling your positions might help you become profitable but can also result in increased losses. If you roll up, then you are rolling with an increase in strike prices, while roll down means rolling while decreasing strike prices. You could also "roll," that is close and reopen the positions, with longer expiration dates but the same strike prices.

Iron Condor

An iron condor is a strategy that is more advanced, with the hope that the stock price will stay within a range of share prices. You open an iron condor position by selling a call and a put option, with the call option having a relatively high strike price and the put option having a low strike price. For example, we could consider a stock with a share price of $100 at the time we open our position. If the recent history of the stock shows that the share price has been between $95 and $105, we could sell a call that has strike price of $105 and a put that has a strike price of $95. Then, the call would sell for $1, netting us $100. The put would sell for $88, so our total premium received would be $188. If the stock price stayed within the range, then both options would expire worthlessly, and we would pocket the premiums.

The iron condor has two more pieces, which are purchased for the sake of adding some insurance to the trade. Two calls are purchased that are further out of the money. That means you purchase a call that has a higher strike price than the strike used on the call option you sold, and you buy a put with a lower strike price than the strike used on the put you sold. In our example, we could buy a call that has a strike price of $110 and then buy a put that has a strike price of $90. Then, the put would cost $18, and the call would cost $28, so the net premium for the four options would be the total credits minus debits:

$188 - $18 -$28 = $142

If the price of the stock goes above the strike price we sold (in this example, $105) or below the strike price for the sold put (in this example, below 495), the trade could result in a loss. Maximum loss is differences between the strike prices minus the net credit from entering the position. Break-even points are the inside strike prices plus or minus premiums. So in this example, the lower breakeven point is $95 -$0.88 = $94.12 and the upper break-even point is $105+$1 = $106. If the stock price fails to fall within the range set by the sold call and put, the loss incurred would be from the sold put option which would be in the money. If the stock rises above the range set by the sold call and put, that is above upper range then there would be a loss from the in the money $105 call.

And again, if the share price stays within the range set by the strike prices of the sold call and put, then the profit would be realized because all four options expire worthlessly and the profit is the premiums earned less the money spent to buy the outside or range options.

An iron condor is an advanced trading strategy only open to level 3 or higher traders. It is used when you think the stock price will remain boxed in between two values over the lifetime of the option.

Butterfly Spreads

Butterfly spreads are another advanced trading technique, and again, they will have predictable but limited profits and limited losses. There are different types of butterfly spreads that depend on the expected volatility over the lifetime of the options. If volatility is low and not much change in stock price is expected, you can use a long butterfly spread. Two call options are purchased; one has a low strike price, and the other one has a high strike price. Then, two at the money call options are sold.

If high volatility is expected, that is your expectation is for significant changes in the stock price, and you can use a short call butterfly spread. The roles of long and short are switched; that is, you buy two call options that are close to or at the money and sell a call option with a low strike price and sell a call option with a high strike price.

In either case, the maximum loss is limited to the cost of setting up the butterfly spread. Maximum profits are limited to the premiums collected from selling the options less the premiums paid to buy the other options.

Adjusting a Butterfly to a Condor

The butterfly is adjusted to a condor by using both calls and puts, rather than all call options. They are different strategies for different situations.

Chapter 8: Selling Options

Selling options is a strategy that is used to generate regular income. In a sense, the advanced techniques described in the previous chapter are also used to do the same. Selling options is a little simpler but carries a higher risk. The strategies in the last chapter are complicated but put a cap on risk. We have talked about selling options a little bit already, but we will review the most basic ways to do it here first, before talking about selling naked options.

Review of Selling Covered Calls

If you have 100 or more shares of a particular stock, you can sell covered calls against your shares. This is a common strategy used by people to earn money off their shares, but you always face the risk that your shares will be called away if the option is exercised. One strategy that can be used is to sell out of the money calls when you don’t expect the share price to rise to the strike price of the call option over the lifetime of the contract.

For example, Facebook is trading at $190.25 a share. You can sell a $210 call for $0.64, so for all 100 shares, one option contract would net you $64. This is for an expiration date in 30 days. Or you could take a higher level of risk and sell a $195 call for $4.05, which would give you a premium of $405 per option contract. If you had 500 shares, then you'd receive $2,025 in premiums. Not a bad passive income and all you have to do is hope that the share price stays below the strike price.

If the share price closes in on the strike price, then you will be faced with a dilemma – risk having the option exercised if the share price rises above the strike price or you can buy back the option and cut into your profits. With a few days left to expiration, the option you sold may be worth $2.05, so you could buy back the five options you sold, and you'd reduce your net profit to $1,000.

You could go further out, even selling LEAPS. In that case, the premium paid is much larger. A Facebook LEAP with a $195 call that expires in 18 months has a premium of $30.58, so selling five contracts for your 500 shares could bring in an income of $15,290. Of course, there is a higher risk that the share price will rise above the strike price over an 18 month period than there is over the short term.

The one principle to keep in mind selling covered calls is that you could lose your shares if the option is exercised. With that in mind, you should only select a strike price that is of higher amount than what you had paid for the shares. That way if you are forced to sell the shares, then you are not taking a loss doing so. That can make losing the shares easier to deal with. So if we had purchased our shares at $200 a share, we would not select a $195 strike price because that represents a potential loss, which would be given by the price we paid for the shares minus the strike price and then less the premium aid, in this case $200 - $195 - $4.05 so we'd end up losing $0.95 on the trade. If you had purchased the shares at a lower price, say $190 a share, then the $195 strike would make sense since if the stock price rose and the shares were called away, we'd still profit by selling the shares.

Protected puts are the put version of a covered call. The risk with a protected put is that the shares will be "put to you" and you will have to buy the shares, so you will be required to have enough capital in your account in order to cover the purchase.

Of course, the trick to selling options is to pick a strike price where you think the option will expire worthlessly. There is always the risk that you are wrong, but if you think the share price is going to rise for Facebook, to use an example, you could sell a protected $190 put for $4.95, earning $495 per contract. If the share price rises, the options would expire worthlessly, and you would keep the premium and profit from the deal.

Selling Naked Puts

Selling naked puts is a popular strategy for traders that are given level 4 status. If you can get this level from your broker, you can consider this possibly profitable strategy. Of course, the key is choosing the right strike price.

When a put is "naked," that means it isn't backed by anything. However, you are still required by law to fulfill your obligations should the option be exercised, but one way that traders avoid this problem is by buying the options back if there is a chance they would be exercised. Time value may work in your favor, which will make the options cheaper and so you can buy them back and still profit.

Another consideration is to choose a relatively low implied volatility, which reduces the chances that the stock will move much over the lifetime of the option. But that is a trade-off as well, as implied volatility that is a few points higher can result in a large increase in the premium received for selling the option.

Consider IBM. The stock price is at $139.20, but you could sell a 30 day $135 put for $2.44, or $244. You could even sell in the money puts. A $145 put would sell for $748 if you sold five contracts that would be a 30-day income of $3,640.

Selling in the money puts could be risky, but beneficial if it was believed that IBM shares were set to rise in price. If the price rises above the strike price, then the options will expire worthlessly.

Selling LEAPS, while it carries higher risk since a long time to expiration gives a higher probability that the option will move in the amount, also allow you to sell at high premiums. A $130 put for IBM expiring in 18 months would sell for $13.20, so selling five contracts would give you a premium of $6,600. Bid-Ask spreads can be large for LEAPS, and the volume is probably small. For this particular option, we find that the bid-ask spread is about 80 cents, which isn't too bad meaning selling it might not be that difficult. Daily volume is small at 10, but the open interest is 1,282. Experienced traders often recommend an open interest of 500 or higher since that indicates there are enough people buying the contracts.

The risk with naked puts is that you will be forced to buy the shares. Again, if it looks like that might turn out to be the case, you can buy the contracts back. Selling out of the money options that expire in the near term can leave you in a better position since the options will probably expire worthlessly, and you will be able to keep the premium without having to buy back the options. If you have to buy the shares, the loss would be the share price minus the market price. But of course, you'd have to get the capital to buy the shares as well.

So if you sold a put option on IBM with a strike price of $138 expiring in 6 weeks, it would sell for $3.70. If the share price dropped to $136, you'd have to use cash to buy the shares at $138, and possibly lose $2 a share by selling them – or you could simply keep them and wait for the price to go back up. Plus your loss would be offset by the premium, so your break-even point is the amount of the strike price minus the premium paid.

Selling Naked Calls

You can also sell naked calls. This means that you sell call options without owning the shares of stock. The risk that the option will be exercised means that you would have to buy the shares at a higher market price and then sell them at the lower strike price. So the key here would be to sell out of the money calls at strike prices that you doubt the stock will reach over the lifetime of the option. The same strategies can be used, and if it looks like the share price is rising, you can buy the options back to avoid being assigned.

Looking at IBM, some modest out of the money call options 30 days to expiration have good prices. A $141 call, which is almost $2 out of the money is $3.55, so selling one contract would give you $355.

Suppose that a stock was trading at $195 a share. You could sell a call with a 45-day expiration with a strike price of $200 for $4.46, or $446. If we find that the share price has risen to $197 with 10 days to expiration, the calls would now be priced at $1.88, or $188. So you could buy them back and still have a profit of $258 per contract, avoiding the risk that you would be assigned if the share price kept rising. Of course, at $3 out of the money, you might wait. When the price of the share rises to $199 with seven days left, the calls would be $218, so you'd be cutting a little more into your profits. But if it dropped $1 the next day, then the call option would only be worth $1.58.

Remember, when you sell options, you make money on the time premium. Or put another way, time decay is your friend. Out of the money options lose value rapidly as the expiration date approaches.

The biggest risk with selling naked call options if you can't buy them back is having to buy the shares at a high price and then selling them at a loss to honor your obligations. Supposed that a stock is trading at $95 a share, and you sell a call option that has a $100 strike price. If the stock breaks out and, say, rises to $130 a share, someone might exercise the option. Since you sold the call naked, you'd be forced to buy the shares at $130 and sell them at the $100 strike price, losing $30 a share, which would be partially offset by the premium, which might be around $1 per share.

So selling naked calls can be profitable, but carries a lot of risks as well. The key to selling naked calls successfully is picking the right strike price and choosing a stock that you don't believe is going to be having price movements that are large enough to cause the option to be in the money.

Broker May Force Sale

Note that options that expire in the money may be automatically exercised by most brokerages. So you will not want to let an option expire in the money unless you are prepared to buy or sell the shares as required.

Chapter 9: Tips and Tricks for Success

In this chapter, we go over some general tips for success trading options.

Don’t let emotion take over

Letting emotion rule the day is a problem many beginning traders are faced with. You might panic when facing possible losses, or get too euphoric when realizing gains. Avoid these problems by having a plan in place before entering your trades and sticking to the plan.

Not having a loss limit

On any trade you enter, make sure you have a set point that you are unwilling to go below. If the options’ price reaches that parameter, then sell the option. If you can set up an automatic trade with a limit order, do it to minimize your losses.

Have a set profit point

Likewise, have an acceptable profit level. All too often share price will go up and up to a certain value, then crash down. Don't be expecting more increases and get out while the profits are there. Sometimes, you will miss out on potentially higher profits, but more often than not, you will come out ahead.

Only trade 2-3 securities at a time

Pick a set of favorite stocks and index funds, and only trade those. Options trading is complicated, and it requires that you keep an eye on your underlying securities. If you pick too many to follow and trade, you might not be able to pay close enough attention to keep things profitable.

Remember your taxes

Options, with the exception of LEAPS, provide short term profits. If you realize any gains that are a year or less, remember those are short term capital gains so taxed as ordinary income.

Look for small profits and build on them

Options are not a get rich quick scheme. If you are hoping to make a million dollars fast, it's the wrong business for you. Focus instead of short term, small profits, and build those up into a significant income.

Conclusion

Thank you for reading this book all the way through to the end! I hope that you have found this book to be informative and educational.

Options are a great way to get in the stock market with a lot less upfront capital. They can be tricky because they come with expiration dates, so you have to get in and out at the right time and can't wait things out like you can with a stock.

But the return on investment is far superior to stocks when you make profitable trades. Be sure to study the securities that you are investing in carefully so that you know where the stock has real potential to move.

Also, keep learning, and I hope this book was a good start.

If you found the book informative and enjoyable, be sure to leave us a good review!

Options Trading Crash Course

Quick Start Guide in Option, Strategies and Techniques, how to create Passive Income. Tips & Tricks.

[Tony Correra]

Legal & Disclaimer

The information contained in this book and its contents is not designed to replace or take the place of any form of medical or professional advice; and is not meant to replace the need for independent medical, financial, legal or other professional advice or services, as may be required. The content and information in this book has been provided for educational and entertainment purposes only.

The content and information contained in this book has been compiled from sources deemed reliable, and it is accurate to the best of the Author's knowledge, information and belief. However, the Author cannot guarantee its accuracy and validity and cannot be held liable for any errors and/or omissions. Further, changes are periodically made to this book as and when needed. Where appropriate and/or necessary, you must consult a professional (including but not limited to your doctor, attorney, financial advisor or such other professional advisor) before using any of the suggested remedies, techniques, or information in this book.

Upon using the contents and information contained in this book, you agree to hold harmless the Author from and against any damages, costs, and expenses, including any legal fees potentially resulting from the application of any of the information provided by this book. This disclaimer applies to any loss, damages or injury caused by the use and application, whether directly or indirectly, of any advice or information presented, whether for breach of contract, tort, negligence, personal injury, criminal intent, or under any other cause of action.

You agree to accept all risks of using the information presented inside this book.

You agree that by continuing to read this book, where appropriate and/or necessary, you shall consult a professional (including but not limited to your doctor, attorney, or financial advisor or such other advisor as needed) before using any of the suggested remedies, techniques, or information in this book.

INTRODUCTION

Options, as we saw earlier, were designed to allow institutional investors to mitigate risk and act as tools for ensuring against market unpredictability. Thus the Options contract was originally used to buy insurance against potentially catastrophic price movements that would have led to huge losses. But their inherent characteristics soon made Options attractive to traders as speculation tools in their own right. To see how Option became fashionable with traders, we need to take a deeper dive into what makes up an Option contract.

Options in Common Law

This is the basis of financial options, and if we consider the transaction through the lens of a financial trade, we can substitute many of the technical terms to make the metaphor more transparent. So for example when you go to buy a house, you agree to a price (strike price) and a date (expiry date) and a suitable deposit (premium) as part of the contingency of the sale (the Option contract). Then on the expiry date, you will exercise your right to buy the house (stock) at the strike price or walk away (let the option expire) losing your deposit (premium).

Don't worry too much about some of the terms, such as strike price and premium all the trading jargon will be explained soon enough. What is important just now is that you understand that with Options trading you are dealing with a contract, the right to buy rather than the asset itself. But because that contract has inherent value, as it derives its value from the relationship between the strike prices, which is fixed in the contract, relative to the current market stock price. And if the contract is deemed attractive to others in the market, then it also becomes a tradable asset in its own right.

CHAPTER 1: OPTIONS TRADING ADVANCED

BULLISH AND BEARISH POSITIONS

SSpread strategies are more advanced in that you don't need to establish a long position. Thus, the cost of establishing a position is a lot lower than with the covered call or the collar trade. While your long-term options trading base should be rooted in those strategies, pursuing spread trades will give you healthy returns in the short term.

Spread trades work very much in principle like collar trades except you will be buying and selling calls (or puts) of the same month and the same type of option in every trade. In other words, while you were selling calls and buying puts with the collar, in this case, you will be buying and selling calls or buying and selling puts.

This chapter will introduce you to call spreads.

Bull Call Spreads

One of the biggest benefits of trading options is that you don't need to be worried about the current market situation since your trades are designed to profit in all markets. At the very least, you will have a strategy, no matter what the market is doing. The bull call spread, also called the long call spread, is a strategy for a moderate to a strong bullish market.

In this scenario, you're quite certain that the stock is going to increase in value over the medium term but you're a bit uncertain about the volatility it is showing. You see, there is a dose of uncertainty with every directional position and you are compensated for this with higher rewards. Options strategies take this uncertainty away but cap your maximum reward.

Thus, if you're extremely certain that a stock is going to go upwards for sure, buying a long call is probably the best strategy. After all, if you know a stock is going to increase in value, why would you place a cap on your profits by writing a call at a higher strike price?

Such situations are extremely rare; however, and this is where the bull call spread comes into action.

How it Works

With the bull call spread, you will be buying a long call which is either in the money or close to the money and offsetting this price by writing an out of the money call. If the stock goes past the higher strike price, your long call is in profit but your overall profit is capped to the level of the higher strike price.

If the stock goes below your long call, you have the premium of the higher strike price call to offset your loss, which is simply the premium you paid for the long call. Remember, you're not buying any stock in this strategy so there is no loss on the stock itself.

Let's continue to use AAPL as an example of this. As of this writing, AAPL is trading at $173.3. The closest at the money call option in the near month is the $170 and $175 which is trading at $6.95 and $4.10 respectively. Now, you could choose either of these strike prices. Remember, you're moderately bullish on the stock but are not sure how high it will go. Given these conditions, let's purchase the 175 call for $4.10.

Now, we need to find a suitable strike price to write a call at. This is a tricky balancing act. Write a call too far away and you won't receive enough of a premium. Write one too close, and you're not giving your trade enough breathing room. This is why it's essential to keep your time horizon on this trade as short as you can afford to. Ideally, your options will have some time value left on them but not too much time to bring price uncertainty into them.

The time decay is evident in the current month option prices. The $190 option is selling for $0.37 which is a pittance. However, let's stick with the current month for now. So what do our risks and reward look like?

Maximum risk= Premium paid for long call- Premium received for short call= 4.1-0.37= 3.73.

Maximum reward= Strike price of short call- Strike price of long call- cost paid for entering the trade= 190-175-3.73= 11.27

Thus our reward/risk on this 3X. Just to clarify, the prices quoted for an option contract are on a per-share basis. Since every contract contains a hundred shares, you should multiply the price by a hundred to get the full price of the contract.

So, to enter this position, or to purchase a single contract, we will need to spend $373 and if the price hits our higher strike price of $190 then we'll clear $1127 on the trade. These numbers are with the near month options, of course. Let's look at how the numbers change by considering the far month.

Price of far month $175 call= $6.30

Price of far month $190 call= $0.92

Cost of entering the trade and maximum risk/share= 6.3-.92=5.38

Maximum profit/share= 15-5.38= 9.62

This gives us a reward risk of $1.78, which isn't all that great, to be honest. As you can see the vagaries of option pricing affect the profit and loss calculations quite a bit. In this case, due to the existing sentiment on AAPL, perhaps the far month calls are priced lower than the near month.

I've assumed a bullish condition but this is not reflected in the prices as you can see. In reality, the far month prices, in a bullish trend, will have higher prices and it is worthwhile for you to check them out as well if you're confident of the trend in the near term.

Considerations

Given the lack of a long stock position, your margin upfront is a lot less on the bull call spread. Also, since the risk is defined by the premium you pay upfront, figuring out the number of contracts you wish to carry is pretty straight forward. Simply figure out how much percent of your account the max risk is and make sure it is a low enough number that won't hit your account too hard in case the trade goes south.

Of course, bullish conditions are the primary underlying factor in the trade. If the market is wildly bullish, then there's no point in executing this since you'll only be limiting your gains. However, a volatile market, which is seeing a lot of counter-trend activity, provides an excellent set of conditions for you to deploy this strategy in.

Use technical indicators to determine the short-term direction and deploy this strategy wisely. I'll be covering technical indicators in a later section, so don't worry about this for now.

Bear Call Spreads

Bear or short call spreads are a trade that has an inverted reward risk profile but an extremely high success rate, assuming everything is executed well. This is a strategy that a lot of professionals love, thanks to it being a steady income earner. However, risk management is critical since the potential loss you could incur is many multiples of the amount of money you stand to make.

This is a strategy where money keeps flowing in with small wins but executes something wrong and one loss will wipe everything away. A lot of beginners experience this due to getting complacent after the steady stream of money coming in.

This strategy is for sideways markets which are at a resistance zone or bearish markets. While selling a call is the best way to take advantage of a bear market, it is unlikely your broker will allow you to do this right off the bat. Hence, the bear call spread is an excellent strategy to deploy in such times.

<u>How it Works</u>

With a bear call spread, you will be writing an at the money or slightly out of the money call and buying a well out of the money option. Thus, on entering the trade, you will receive the premium from the lower strike price call and pay the lesser premium of the higher strike price call.

This is also the amount of your maximum profit on the trade. If the underlying stock increases in price beyond the first call, you will need to exercise your higher strike price call to buy the shares to fulfill the lower call being exercised. Thus, it is vital that your strike prices are close together and not too far apart, or else your trade will be stuck in a no man's land.

All of this is better illustrated via an example. AAPL is currently trading at $173.30 and the closest at the money call is $175, priced at $4.75. Now, let's assume $175 is a major resistance and that the stock is certain to turn back downwards once it reaches here. We write a call at $175 and earn the $4.75 premium.

It is a good idea to buy calls which are two steps past the lower strike price level. At this point in time, the strike price that is two steps away is the $180 call, which can be bought for $2.84.

Cost of trade entry/maximum profit per share= Premium received from writing lower call- Premium paid to purchase higher call= 4.75- 2.84=

$1.91/ share.

Maximum loss= Strike price of higher call- strike price of lower call-net premium received on trade entry= 180-175-1.91= $3.09/share.

As you can see, the reward risk is inverted with this strategy. Now, the best-case scenario for this trade is for both options to expire out of the money. In that case, you don't need to bother exercising either one of them.

The no man's land scenario is if the lower call moves into the money but the higher call doesn't. In this case, you'll have to buy the shares yourself, physically, at whatever the market price is and deliver the shares thanks to the lower call being exercised.

The worst-case scenario is price moving past the higher call, in which case you'll need to exercise it and deliver it. You'll obviously eat the entire loss in this case. This is why it is very important to make sure the price is in a strong bear trend or is near a strong resistance from which it will turn downwards.

Given the risk of this strategy, I personally recommend beginners to stick to options which are in the current month, instead of trying to capture the time decay of near month options. The additional time risk is too much and most beginners will not be able to manage risk well enough to stomach such losses.

Considerations

Your biggest concern with the bear call spread is the risk. Sure, you could widen the gap between the lower and higher call but to do so, you must be completely certain that the probability of price rising beyond the lower call is low. As always, market conditions play a huge role and you must be aware of these at all times.

What if you happen to be wrong about your market premise? What if, instead of being bearish, it turns out that the market makes a bull move? Well, this is where the adjustment comes into play.

You could flip your bear spread into a bull spread or, in the case of an expected bull market turning bearish, you could turn a bull spread into a bearish one. As always, the call levels are important. Needless to say, you need to buy and sell the same number of contracts and both legs of the trade must belong to the same calendar month.

Don't get fancy and try to arbitrage different months or make a volatility play. If you don't know what that sentence meant then don't worry. It was aimed at those traders who know just enough to trip themselves up.

Stick to the basics of these strategies and you'll find yourself making money consistently. If you are wondering if it's possible to successfully leverage calls with different month expiry dates, then yes, it is possible. This is what the calendar spread trade is all about.

ADVANCED POSITIONS

Options trading present a new, more advanced method of investing. To be successful in options trading, it is very important that you understand exactly what you are doing. This will ensure that you are not just an amateur groping in the dark but a true investor.

One of the most important reasons why trade in options is gaining popularity is that investors do not need to invest large sums of money as compared to those investing directly in stocks and shares. This is because traders do not need to actually buy the underlying stocks or shares but simply the rights affiliated with the options. However, the returns are just as great, if not greater, as those gotten from trade in securities.

Options require an arsenal of successful methods and tactics to be profitable. For a beginner or the average investor, a powerful and successful strategy is definitely essential. Whenever you invest money in the stock market, always diversify your portfolio and if possible, include options. This way, you will greatly increase the income that you derive from your investments.

Basic ways of investing in options

One of the best ways of investing in options is to purchase call options. As an investor, you buy this option with the expectation that the value of underlying stock will increase its value. However, as an investor in options, you want to amplify the benefits while minimizing the potential downside. This is the primary reason people choose options over just shares.

Example of a call option contract

Let us assume Company X shares are currently trading at $100 in the stocks market. Now, assume a buyer comes and buys a call option contract on Company X shares at a premium of $2 and $100 strike price.

Now it is important to understand that the $2 premium is the right to buy the 100 shares at $100. Ordinarily, this would ideally cost $10,000.

However, this costs the investor only $200 because 100 shares X $2 = $200. Several things can happen to this share in the coming days.

Let us assume the shares gain at a price of $105. Remember the call option gives the right to buy the shares at $100. So the buyer could choose to buy the shares at $100 and then sell them at the market for $105. This is a cool $500 made in just a couple of days or weeks. However, since the options cost $200, the net income will come to $300. This is $500 - $200 = $300. The ROI or return on investment, in this case, is 150%.

Now imagine a situation where the option expires while Company X shares are trading at $101. The buyer will then be able to dispose of the options and make $100. However, the initial investment that was made was $200. This trade will, therefore, result in a net loss of $100.

Yet another situation that could arise from this trade is when the share price of Company X drops to below $100. The contract becomes worthless once it expires and the buyer will suffer a 100% loss. This means he loses the entire $200 that was used to purchase the options.

This is basically how options trading works. In our example above, the investor does not lose much money so it is not the end of the world for him. However, many investors often trade with large amounts of money. When traders or investors use large money amounts, this is known as being “in the money” and brokers make what is known as a deep call. These are made when there is a higher chance of making money and being profitable.

There are also orders known as stop-loss orders. This order is used to protect the investor from incurring losses when they invest large amounts of money. Our example above of buying a call option is one of the simplest ways of investing in options. Ensure that you can understand it so you can apply it to your trades when the time comes.

MIXED BULLISH AND BEARISH POSITIONS

As great as spread trades are, a serious drawback to them is that the rewards they pay are limited compared to normal, directional strategies. While some spreads cap your maximum reward right off the bat, the ones that require you to wait also tend to produce comparatively limited rewards.

Now, I’m not advocating or saying that spread trades are bad or inefficient, far from it. It’s just that options can be used to turbocharge your returns much like directional trades do. This is why combination trades are so powerful. Combination trades, in a few cases, do require you to commit to a certain market direction so they aren't all neutral like spread trades are.

However, your cost on entry into the trade is far lower than a directional bet and thus, you can use more of your leverage, provided your risk management is on point.

Combination trades are classified as either straddles or strangles. In this chapter, I'm going to break both of these strategies down so you'll be able to deploy these with ease when you're done reading this.

Straddles

The long straddle is a combination trade where you're not particularly invested in either side of the market. Whether the trend is bullish or bearish is of no concern. The only thing to avoid is a sideways market. As long as there is some sort of direction to the market, you only care about the degree of force with which the market moves in that direction.

The trade itself has two legs but both legs will be long positions. One of the legs is a long call and the other is long put. Both options will have the same expiry date, same month, and the same strike price. Needless to say, the quantity purchased of each should also be the same.

The long straddle is a very simple trade to put into play. First, you buy an at the money call and then an at the money put. The idea is that one leg of the trade will rise in value depending on the direction the market takes. As the market moves in a direction, you could exit the unprofitable leg of the trade or hold onto it until expiry.

Meanwhile, the other leg of the trade will gain in value. The only thing to be careful of is that you will have moved your break-even point by the value you paid for the unprofitable leg. Thus, you want the profitable leg to move at least by that much. Thus, the key to success with this strategy is determining the probability of a big move in either direction in a stock.

Now, you could use technical analysis on the price chart for this but a much better way of doing this is to look at the implied volatility. Implied vol is an input that goes into the pricing of the option and the greater this number is the more the price of the option. Your key to success is to apply technical analysis principles to the chart of the implied vol and not the price chart.

In case you're a bit confused as to what the term means in the first place, let's take a step back. Volatility is the degree with which a stock moves in a given direction. The VIX, which is a popular chart, is a chart depicting the current volatility of the overall market. You need not concern yourself with how volatility numbers are calculated since this would be more appropriate for an advanced audience.

Instead, focus on when greater volatility occurs within stocks. Earnings announcements are a great example of this. Some companies have heavily anticipated earnings announcements and overperformance or underperformance in this regard often sends the stock rocketing in either direction. Election results also tend to have this effect on the overall market.

Important regulatory announcements also tend to produce a lot of volatility in stocks as do announcements with regards to lawsuit outcomes. Tracking these basic fundamental factors in the news will narrow down your field of potential stocks in a jiffy.

As volatility increases, post announcement, the price of the option on the winning side of the trade increase dramatically, far more than the value you paid for the losing side. Thus, you don't have to worry about being right, as with a directional trade, you just need to make sure you're right to the correct degree.

Several option trading platforms provide implied vol charts. Implied vol is simply the projection of volatility but this is plotted as a function of the current time. For our purposes, you can regard volatility and implied vol as the same thing, despite there being some differences. As I said earlier, the differences are relevant for a more advanced audience.

A good source of free implied vol charts is www.alphaquery.com in case your broker belongs to the stone age. You can use this source until you find yourself a more suitable broker with a better platform. Do note, that the calls and the puts have their own implied vol values. These values are then averaged and the mean implied vol is plotted. It is this mean number you ought to focus on.

So what are some of the things to look for on the implied vol chart? Well, a dip to historic lows is a good bet. If the dip is hitting an important, prior historic low, you can bet that traders will pick up on this and there will be a bounce. Implementing a long straddle as the vol reaches this level is a good strategy.

Generally speaking, support and resistance techniques that you would use on a price chart apply equally as well on here. I wouldn't go so far as to use indicators and price patterns since that's just overkill.

The steps to implement the strategy are pretty straight forward. You buy the closest at the money call and at the money put and then watch for the market to move in either direction. If your volatility readings are correct, you'll find that one leg increases in price far beyond what it cost you to buy the unprofitable leg.

Continuing with the AAPL example, the closest at the money strike price currently is $180. The call will cost $6 to buy and the put will cost $5.95 to buy. Thus your entry cost is:

Trade entry cost and maximum risk per share= cost of call + cost of put = 6+5.95= $11.95 per share.

Your breakeven point to the upside is the strike price plus the put premium. Your break-even to the downside is the strike price minus the call premium:

Break-even point to the upside= Call/put strike price + Put premium paid= 180+5.95= $185.95 per share.

Break-even point to the downside= Call/put strike price - Call premium paid= 180- 6= $174 per share.

So to make a profit on the long leg of the trade, the call needs to move at least 5.95 points and, on the downside, the put needs to move at least 6 points. The worst-case scenario for the trade is if the stock remains in the band between $174 and $185.95, implying a sideways market.

Considerations

Deciphering whether the market is about to enter a range or continue on a trend is of the biggest concern with this strategy. While you can check implied vol to determine this, there is the question of timing. The market may remain in a low implied vol situation for longer than you might have bargained for.

The question of time brings forth another important point. With straddles, you must give the trade some time to play out. Thus, you should not employ this with current month options, unless there is some extremely important event that will occur in that period.

Near month or far month options work the best and give you the added advantage of having time decay on your side. Should you exit your unprofitable leg or should you take the entire loss? Well, this depends on how you approach your trade management. Certainly, letting the unprofitable leg expire worthlessly is suited for those who wish to adopt a bare minimum approach to the market but it does cost you more.

More active management is a better option but keeps in mind that the activity required here is far less than what would be necessary for regular directional trade. Generally speaking, if the price has cleared an important S/R level in whichever direction it has moved in, or if it has started a new leg of a trend, then you can safely close out the unprofitable leg.

This has the added effect of reducing your breakeven cost as well so let the profitable leg run for as long as possible. Make sure you close out your profitable position and don't let it expire by mistake! You can either exercise the option prior to expiry or you could sell the option itself. Either choice is a good one.

If the call happens to be your winning leg, you could parlay this into a covered call strategy. If the put happens to be a winner, your choices are less, but in some cases, a vertical spread might work. A collar could also be a good choice if you feel there is some consolidation ahead for the stock.

Thus, a straddle is an extremely profitable strategy when done right. The key is, to begin with the implied vol and then figure out your unprofitable leg's exit points in order to reduce your break-even size. Either keep your winnings or translate this into another strategy to boost your earnings.

STOCK INVESTING, THE BEST CHOICE OPTION TRADING, CALL AND PUT

While the following chapters are going to talk mostly about options as they relate to the stock market, there are options for virtually every type of asset that is public traded. No matter what type of underlying asset is being coveted, however, all options can be classified as either calls or puts.

Call Options

In chapter one, you read the example of a movie producer buying an option on a film from an agent. If you recall, the producer pays a $10,000 premium to the agent for the right to make the film. The option expires after one year.

If the movie goes into production, he's agreed to pay the agent $100,000. If he exercises his right, he takes ownership of the film and can do as he pleases. He can make the film, cancel or postpone it, or sell it on to someone else.

However, from the producer's perspective, he has bought a call option on the film. That is, he paid a premium for the right to exercise his right (take ownership of the film) at any time until the option expires.

Buying a call option over shares listed on the stock exchange market is almost no different from the example of buying an option on the movie. The only difference is that the underlying asset is a share. A call option offers the buyer a right to purchase the underlying asset for a fixed price at any time up until expiry. With a call option on shares, it gives the buyer the right to buy the underlying shares for a fixed price (the strike price) at any time until expiry.

Call Options Consist Of

.**A RIGHT to BUY**

.**At a FIXED rate**

.**Over a given PERIOD OF TIME**

.

A June BHP $30 call option gives the buyer the right to buy 100 BHP shares for a fixed price of $30 up until the option expires in June. Remember, one contract = 100 shares, five contracts = 500 shares.

And a September $80 CBA call option gives the buyer the right to buy 100 CBA shares for a fixed price of $80 up until the option expires.

For this right, the option buyer pays the option writer a premium. For receiving this premium, the option writer must deliver the shares at the strike price if they get exercised.

Put Options

One day you come out of a meeting to discover that someone has crashed into your car. The car looks extensively damaged, and you wonder if your car will be a 'write-off'. You call the insurance firm to alert them of what has happened. They organize a tow truck to take your car away for assessment.

If the car is repairable, the insurer will arrange for the car to be taken to one of their designated repair shops. If, however, the insurer determines that the cost of repairing your car exceeds its market value, then they might choose to write it off. They might replace it with a new car. Or, depending on its age, write you a cheque for the market value of your car.

Your car insurance policy is really like a type of put option. Instead of paying a premium for the right to buy something (like with a call option), you are paying for the right to sell something. In this case, your car to the insurance company.

Put Options Consist Of

.**A RIGHT to SELL**
.**At a FIXED rate**
.**Over a given PERIOD OF TIME**

Components of A Put Option

Asset – in this case, it's simply your car.

Fixed price - the amount your insurer will pay you in exchange for your car if you make a claim - that is, exercise your put option. Depending on the lifespan of the vehicle, your insurer will replace your car with a new one, or pay you out its market value.

Expiry date - is simply the date at which your insurance policy lapses.

The premium - the amount you pay to your insurer when taking out or renewing your policy.

It is easy to remember how a put option performs by pondering the word **put**. In this example, you have the right to 'put' your car to your insurance company. They have a contractual obligation to repair, replace or pay out the market value to you as the owner of the vehicle. As the holder of the policy, you have the right to exercise it.

When you take out the policy, you are buying a put option. The seller, in this case, the insurance company, is selling you the put option.

If you buy a put option and therefore have rights, you have the ability to 'put' your asset to the put writer/seller, if you choose to exercise it. Note that irrespective of whether it's a call or a put option, the rights remain with the buyer and the obligations with the seller.

How to use a put option with shares.

A put option buyer has the right to sell their shares to the put option writer for a set price (strike price) at any time until expiry. If exercised the option writer must take delivery of the shares.

A September $30 ANZ put option gives the buyer the right to sell 100 shares of ANZ for a price of $30 up until the option expires in September.

For this right, the option buyer pays the option writer a premium. For receiving this premium, the option writer must take delivery of the shares at the strike price if they get exercised.

If you are looking to purchase an option, then you are looking to create a call and if you are looking to sell an existing option then you are looking to create a put. When you create a call, what you are really doing is saying that you think the underlying stock in question is going to increase in value during the period that the option is valid for. Many people have exercised a call option, even if they aren’t aware of it, as this is what is taking place for anyone who has ever purchased company stock at a set price. On the contrary, if you looking to generate a put then you believe then the price of the asset that underlies the option is going to decrease in price between now and when the option expires.

Regardless of whether it is a call or a put, each option is also going to be either long or short. If an option is short then this means that it is set to expire in six days or less while long options expire either in weeks, months or years. If you are looking to speculate then you are likely going to be interested in short options and if you are interested in using options as a form of insurance then long options are going to be more useful.

In addition to being either a call or a put, an option is generally either classified as either European or American. Despite the obvious differences here, this type of classification has nothing to do with where the option originated and instead has to do when it can be acted upon. An American option can be exercised at any point up to and including the moment it expires. On the other hand, a European option can only be exercised at the time of its expiration which makes them less ideal for those who are just getting into the options game as you have to have a much more specific idea of the movement of the underlying asset in question.

Finally, European and American options can both be thought of as vanilla options as they are the most common types that you are going to encounter. There are also exotic options that can have quite a few more variables attached to them that can make them much more difficult to profit from unless you know exactly what it is that you are doing. As such, novice options traders are advised to stay away from exotic options for the foreseeable future.

Like the options they deal in, options traders themselves can be classified as well. Those who typically spend their time buying options are known as a holder while those who specialize in selling options are called writers. Furthermore, both writers, as well as holders, will frequently specialize in either puts or calls. The general consensus is that holders will always have the more desirable position in the relationship because they can choose to act at any point, forcing a writer to act before it is the optimum time for them to do so. Additionally, a holder can walk away at any time with very little consequence if their plan stops coming together as originally anticipated.

BASIC TERMS USED IN OPTION TRADING

It is advisable to learn as much as possible about options pricing especially at the basic level. Below is a review of some of the most basic terminology that pertains to options pricing.

At-the-money options: These are options contracts with a strike price that is exactly the same as that of the market price of the underlying commodity.

Contract: This is an option that consists of 100 shares of a specified underlying security.

Covered Put: This is an options contract where the option writer has a short position within the underlying security based on a share-for-share basis.

Covered Call: In this instance, the option contract writer has a long position on the underlying security based on a share-for-share term.

Covered Writer - This term refers to an options seller who also owns the underlying security. The owner hedges the security against the option.

Date: This is the date when an option contract expires and becomes null and void. A lot of options contracts expire on the third Friday at 4.00 pm on expiration month.

Derivative: This is a security that derives its value from another security referred to as underlying security. Options contracts are a type of derivative because they derive their value from an underlying security.

Early Exercise – When you decide to exercise an options contract before it attains its expiry date. This can happen with American style options.

European Options: This term refers to a specific type of options contract which can only be exercised at a particular period of time just before it expires.

Holder: A trader who purchases an options contract then pays the writer a premium.

LEAPS: Long-Term Equity Anticipation Securities – these are options contracts that are publicly traded with expiration dates that extend beyond a year.

In-the-money: We say that a call option is in-the-money when the value of the underlying security is greater than the options' strike price.

Listed Option: This is a call or put option that is available for trade at the options exchange. Some of the terms pertaining to the option are determined and standardized by the exchange.

Open Interest: The sum of all outstanding options at the options market on a specific day.

Naked Option: This refers to an option's position that does not include the writer's offsetting position with the underlying security. This means that there is no protection in case the price moves in the opposite direction.

Option: An option is a financial instrument and a derivative. This derivative grants its buyer the right to an asset or security without any obligation to sell or buy. However, this is usually for a specified period of time and at a set price.

Out-of-the-money: An option that has no intrinsic value and that will expire worthless at the close of the trading day. For call options, this is the case when the strike price exceeds the underlying security's market price. For the put option, this is when the strike price is below the market rate of the underlying security.

Over-the-counter: This term refers to options contracts that are not traded at an exchange like other options. Such an option lacks standardized expiration dates and strike prices.

Premium: This is the overall cost of an options contract. When you buy an option, you pay an amount known as the premium. This amount combines the time value of the option and its intrinsic value.

Put: This refers to an option contract that awards a buyer the right to sell underlying security without the obligation of doing so. This right is pegged within a certain time frame and an agreed price.

Strike Price: this is the price that is agreed upon between parties at which you can exercise your options contract. For a call option, the strike is generally the price at which you can buy the contract. For put options, it refers to the price at which you can sell the option. Sometimes this price is known as the exercise price.

Terms: An options contract has conditions. These include an expiration date, strike price, underlying security and so on. These are collectively known as terms.

Writer: This is an investor who writes and sells options contracts and collects a premium as payment for the effort. As a writer, you are obligated to sell or buy the underlying security should the holder decide to exercise the option.

Underlying Security: This term refers to financial security that will be sold or bought should an option be exercised.

CHAPTER 2: HOW TO START

INVEST IN STOCK MARKET

Investing in the stock market means buying and selling currencies, aiming to earn between the price difference (purchase and sale). In the world of the forex exchange, as in other major financial markets (for example, the stock market and CFD), you can earn both when there is an increase in the value of a stock, and when there is a fall in the value of a stock.

Today, thanks to online trading, it is possible to invest in forex, simply from home, without problems. This is possible thanks to online trading platforms better known as brokers.

Today it is possible to invest in the forex exchange mainly through the following methods:

.stock market;
.binary options trading;
.CFD trading (contract for difference)

In this case, you can choose one of the following online, regulated and authorized trading platforms as shown below:

.Markets.com
.24Option.com
.iqoption.com
.BDSwiss.com

In short with online trading, everyone can start making money on the stock market. It does not matter whether you are a novice trader or an experienced trader. Online trading is offered to everyone, thanks to the training offered by its broker, which teaches the basics of trading. Moreover, many brokers today allow you to practice with a demo account, thanks to which all traders can test not only the trading platform, but they can start experimenting with their trading strategies and take their first steps in this fantastic world.

Very often the concepts of saving and investing are confused, as well as that of "saver" and "trader." However, there are substantial differences that need to be understood, before diving deeper into the subject of money.

STOCK EXCHANGE

The stock exchange is a private company that manages and maintains the stock market. They provide the technology and the people needed to allow transactions to happen in the market. Put simply, the stock market is where you buy and sell stocks.

You may be asking, what exactly are stocks?

Stocks (also called equities or shares) are units that represent a person's claim to a company's assets and earnings. Companies sell these units to raise funds. The people who buy them are called stockholders (or shareholders). By selling stocks, companies give these investors a claim for their assets and future earnings.

INVESTMENT STRATEGIES

While there are many different types of strategies that you can use when you enter the stock market, they can be divided into two categories including long-term and short-term. The long-term strategies will need you to stay in the market with a particular stock, in the same position, for at least a few months. This is the method that a lot of beginners choose because they can do all the research and then sit back, checking in occasionally, with their choice and know that they are making money.

You can also choose to work with short-term strategies, ones that will have you in and out of the market in less than two weeks, and some, like day trading, that will get you in and out of the market within a few hours. The long-term and short-term strategies can both be effective ways to earn money in the market, but you need to make sure that you know how they are similar, how they are different, and how to work with both of them.

CHAPTER 3: PLATFORMS AND TOOLS

There are various platforms in options trading that one could consider. There is web-based trading that utilizes the power of the search engines. This platform has many operators since the building of websites in the modern age is easy. This platform is responsible for the growth in the popularity of options trading. People can trade from anyone, open brokerage accounts, make deposits, and participate in the buying and selling of assets in the comfort of their homes.

With the presence of a lot of technological gadgets such as smartphones, tablets, and computers, web-based trading has been easy and possible. Websites can be built with additional resources for learning and tools that can be an advantage for both novice and seasoned traders. On the websites, regular updates on the market can be posted to keep traders informed about trends, patterns, and even help in analyzing price movements for the subscribers.
The web is also a good platform when it comes to filtering opportunities and options based on suitability and preference in view of the various abilities of users. They can be designed to be customizable even when the options markets are standardized.

User Friendliness
Usually, websites are good as they offer various tools that aid beginners to edge into trading options. ASX, for example, offers a variety of web-based resources that guide people in their efforts to understand trading. This includes online chats that have instant feedback as a team is dedicated to the work site for correspondence purposes. The aim of this is to offer motivation and impetus to go on with the discovery of the markets trends until one becomes a seasoned trader.

Friendliness is also in terms of the efforts that are made to create peer assistance. This is through creating groups of traders that influence each other and can learn from the vast experiences in the trading of the options. This can be a positive influence on the journey to gaining competence and help support an environment where people can relate and interact as they pursue their various financial goals.

It is important to consider the fact that some of the platforms of trading offer important tools that can help decide on options. The tools are those that help in monitoring markets and simplify the technical analysis process for the trader. This can help one to sharpen their trading strategy to align well with the ultimate goal of trading. This depends on whether the goal of trading is to earn money in terms of profit or hedge oneself against losses on the underlying asset.

Tools to Learn

Upon mastering the various basics of trading and making the initial moves to start trading, one has to use various tools that help to indicate the advancers and decliners on the market. Greeks are some kind of metrics that those involved in options trading capitalize to ensure maximization of returns. These “Greeks” include the delta matrix that measures the correlation between price movements of the underlying asset relative to the price of the option. The tools for monitoring the movements for these parameters of trading are vital as everyone is always trading with a focus on minimizing losses while geared towards profit maximization.

The gamma is another tool that can help to predict market trends to do good timing for decisions on exercising rights in options. Gamma is an indicator of the rate of delta variations for the option price as compared to the asset price. This goes hand in hand with the time-decay tool that indicators the value movement, either upwards or downwards, in the period of life options. This helps to signal which options to avoid given the remaining time of the life span and the value implications thereon.

There is also the aspect of the volatility of the asset underlying a particular option trade. Some of the assets or stocks do not have inherent volatility to appreciate due to their nature. Assets that have high market volatility usually gain a lot on the market, and hence, the value behaves better to favor the call option trade. Products with ugh volatility and high

inherent value are not suitable for the put option trade since they will occasion a loss. It is therefore important to use correct tools that aid in the analysis if the technical mechanics of the options trading business.
Tools are not just concrete things that can be manipulated. Some tools, especially in trading, are conceptual in nature. This is because they are the ones by which one can trade and aid in decision making. They sample out market forces and help in mapping out market trends for the benefit of the trader. To perceive tools as only concrete in nature is a misconception of the whole options trading venture.

Professional level platforms

There is a level in trading where one attains sophistication and attains the intuition to thrive in options trading regardless of the ways market forces seem to behave. At this level, someone needs tools that can help them edge into the horizon of complexity in trading. The platforms for this professional level exist, and they have to offer tools that are an edge above the basic level. These tools have to offer strategies of competing to control the stocks and rise above the market forces. At this level, one becomes daring, and the possibilities that the platform offers should only be dared by those who have mastered trading and are sure of beating odds as they speculate about squeezing out value form trades that otherwise be perceived as highly risky.

The platform should be full of idea probing resources that lead one to gain the courage to trade more and more. Web-based platforms of this level include the think or swim platform that is categorically for seasoned traders. This is the reason why one has to know the platform to trade on based on their level of experience in options trading. Some platforms are too complicated for the starters. The tools are even out of the capacity of a beginner to comprehend the trades appear to have higher risks that may wipe away hard-earned fortunes.

Mobile Trading

Some platforms have taken advantage of the handiness of the mobile era. These entail the smartphone lifestyle and the flashier iPod, iPad, and tablet culture. This is when trading is being placed in the palms of traders to hold and run away with it. This platform usually targets traders that want to capitalize on device optimization. This is the reason why trades have classes. Some of the options could be device targeted as they can only be taken advantage of when one using the suitable device for trading, provided the relevant support tools that the device offers.

Mobile trading also comes to keep people abreast. This is because opportunities sometimes appear and disappear on people because they are not using a device that enables them to be precise and timely in decision making and action.

With mobile trading, apps have been developed, some with notification capability. One can customize the apps to ensure that no opportunity comes that is not taken advantage of. Opportunities' in trading have to be seized and relying on a platform that is less handy and far means that opportunities of trading are lost.

What Are We Looking For In Platforms And Tools?

First is the opportunity to learn. There is no worse platform of trading than that which targets only to admit traders who do not understand what they are getting into. The education that a platform has to offer should be free as trading is itself risky enough to prohibit any extra expenses in the process. Platform operators should understand that any interested person who visits their platform is a potential subscriber, and they should freely offer support to educate them for acquisition of requisite knowledge on options trading.

Some of the platforms have gone as opening structures units for education on options trading. These courses are taken online, and coaching is done through the provision of a stream of webinars transmitted live or uploading recorded ones. This is for platforms that appreciate that trading is an informed gamble that requires one to know enough. They even test the proficiency of understanding trading concepts and mechanics to ensure that any people who trade on the platform are doing what they understand to build the platform ratings.

It is also vital for a starter to set standards that the broker's customer service should pass. In trading, brokers should work enough to earn the commission that they charge on the options that subscribers trade on buy. This is because some brokers are obscure and may not involve the options trader who is buying options in decisions that directly impact on his capital.

One, therefore, faces a lot of anxiety if the broker is not responsive and transparent on the particular mechanics that influence trade.

Excellent broker services try to suit customer needs. They ask options traders subscribed to their platform what their preferred means of reaching is. Whether a live chat or phone call suits the customer or not. They also dedicate a desk for trading communications and queries and has the discipline to listen to customers and their issues with patience. They have feedback on the quality of customer service that those who reach out get.

Software Trading Platforms

These are more complex than web-based ones. This is because they are run on the trader's computer, and the trader is required to understand what the software does and interpret it. Even when the brokerage can offer assistance, software-based platforms require the trader to have enough technical know how to read charts, graphs, and understand patterns that represent various components of options trading.

For beginners, a complex platform has to be avoided by all means. This is because one is bound to engage in aspects of trading that they do not have an understanding of.

A trading platform simply has to be simple and clear. The interface should not be too busy as to scare away those traders who are not accustomed. This is the reason why operators usually separate the platforms that as designed for basic use, which is suitable for novices, and advanced trading for the seasoned ones.

Then a broker has to offer a tutorial that guides the user on how to navigate their platform. Everything has to be explained, even those that one would deem to be obvious. Screenshots can even be available to be categorical and emphatic. This ensures that a broker has offered all possible assists for the trader to benefit from the offers and products on the platform successfully.

Cost Implication

The trader needs to know that some brokers may have charges attached to some of the services, resources, and tools that they provide on their platform. These have to be assessed in terms of their worth and whether the costs are necessary. Making some tolls premium may be an indicator of quality but not always. This is particularly the case when other platforms provide similar services toll-free.

Screening tools are particularly the ones that are bound to attract charges because they have abilities to analyze and assess market trends. They can think about the trader and help him in decision making. One has to read about the specifications of the tools and ascertain what they or cannot do. This is to know if they are customizable to serve the needs and conveniences of traders.

Some charges can even be attached to the quotes update feed. Usually, the quotes can be accessed in real time for those who want to see them in real time. The quotes are important in influencing idea generation and sometimes can tip people of opportunities in the market. There is usually a delay for those who access the quotes updates for free.

It is also vital to understand platforms do not provide all the tools to everyone using their platform to trade. Some of the cutting-edge tools that can best serve the business interests of traders are premium. They have subscription charges or otherwise only appear on the accounts of traders who constantly sustain a certain threshold of account balance minimums. This is particularly the case for platforms that operate at the professional level. They require one to be active and remain active in trading since this serves the business interests of the brokerage through the commissions it earns on options contracts. In return, it offers the consultancy, expertise, and resource repository for one to realize value out of the options trades. This is why they attach a price on some of the tools.

CHAPTER 4: ADVANCED FINANCIAL LEVERAGE

In options trading, technical indicators are used to enable the trader to determine a couple of facts. These include the following;

.Duration of stock movement
.Direction of the move
.Movement range

There is a difference between trading options and other securities. The main differences are that options are subject to time decay and their value diminishes as time goes. The holding period is therefore quite significant. For this reason, the difference between an ordinary trader and an options trader is clearly visible.

> An options trader is constrained by time while an ordinary trader can hold a position indefinitely. This is the major difference between the two and hence the need for additional technical indicators.

TECHNICAL INDICATORS

What are the technical indicators? These are useful indicators that provide information about trends and even possible turning points in the prices of stocks and securities. Technical indicators are among the tools that are used by traders and even analysts to predict the best times to purchase or sell stocks and options. The technical indicators also predict the cycles.

A technical analyst will calculate the essential particulars of a stock. Many of the technical indicators are calculated using data such as;

Closing price
Highs
Lows
Trading volumes
And opening prices among others

Stock prices from the past couple of trades provide most of the raw data required to work out technical indicators. Data mostly used is often from the previous 30 days. The data is then utilized to come up with a chart or trend that indicates what has been happening and what will happen to a particular stock. This is because past performances are a great indicator of future trends.

Technical indicators are widely used by options traders to predict the future movement of price movement of stocks. They also indicate trends within the market. When it comes to technical indicators, there are two main types. These are; leading indicators and lagging indicators

Lagging Indicators are indicators that closely monitor and follow a stock's price pattern. This is why they are called lagging. These indicators are solely based on previous data and are hence excellent at indicating whether there is any trend developing in the market or if a stock has entered a trading range. Lagging indicators can, for instance, point to a stock with a major downward trend and will most probably continue falling.

Future Trends and Pullbacks

You should keep in mind that lagging indicators are not recommended when it comes to predicting future pullbacks or rallies. These indicators can indicate the trends that have developed until the latest point. However, they cannot point to future trends or events even just for the next couple of days. Some common lagging indicators that are popularly used by options traders include ADX indicators, the Moving Average, and the MACD.

> In summary, therefore, lagging indicators are excellent at pointing out the developing trends but are poor at predicting or forecasting any future stock price movement.

LEADING INDICATORS

The other very useful technical indicators are the leading indicators. These technical indicators are extremely useful at predicting future events. They often provide relevant information regarding possible crashes and future price gains. Some of the leading indicators include momentum indicators. These are capable of predicting or gauging the momentum of the price movements of a stock.

Momentum indicators are more like tossing a football in the air. No matter how high the ball rises, we know that it will eventually fall back to the ground. We may not know when it will stop going up, but we are sure that it will do so at one point. This is basically the genesis of momentum indicators.

Leading indicators such as the momentum indicators are excellent at revealing if a stock price has gone too far down or too high up. They also let us know whether there is a reduction in the momentum of the price movement. When the price moves too high simply means there has been an over-purchase of the stock. In such cases then the stock has been overbought.

Should the price move too low, then this says that there is an oversupply of the stock and buyers are possibly dropping it. When a stock has been overbought or oversold, it will not remain in this state for long. We can, therefore, make a deduction that a pullback is likely to happen. Most momentum indicators and the RSI are good examples of leading indicators.

LAGGING AND LEADING INDICATORS

Most traders appreciate both lagging and leading indicators because they are both invaluable. It is important that as a trader, you are informed about any possible price pullbacks and slowdowns. Ideally, you should never rely on just one of these indicators but on both. This way, your predictions, and trades will always be accurate and reliable.

Most indicators sometimes produce false signals occasionally. Since this is a risk that you want to avoid, then we recommend using at least two or three different indicators. Identify 3 specific indicators that you like, and if they all give you positive information about a stock, then you can feel confident enough to invest in it. There are essentially hundreds of different indicators in use across the world. In fact, most seasoned traders will have developed their own technical indicators so as to predict the markets accurately. You should learn about how to use about 5 different technical indicators. This way, you will have a wide variety of options to choose from.

TOP TECHNICAL INDICATORS

We have noted above that there are hundreds of different technical indicators currently in use. However, there are some that are absolutely crucial for options traders. If you can learn how to use about 5 of them, then you will have a strong foundation for your technical analysis. Here is a look at some of the more important ones.

Average Directional Index Indicator, ADX

The ADX or average directional index is a popular indicator that is mostly used for confirmation purposes. It essentially works to confirm the information or signals that are produced by other indicators. This technical indicator works by measuring the strength of any given trend. As an example, you can use the ADX to measure if an upward trend or maybe even a downward trend is slowing down or gaining momentum.

This average directional index, ADX, combines the positive directional indicator, +DI, and the negative directional indicator, -DI. The -DI or negative directional indicator tracks the downwards tend while the +DI or positive directional tracks the upward trend at the stock market. When these two indicators are combined together, we get the Average Directional Index. This combination of two strong indicators produces one powerful and unified trend strength indicator.

CHAPTER 5 : TECHNICAL AND FUNDAMENTAL ANALYSIS

FUNDAMENTAL ANALYSIS

While it should come as no surprise that you are going to need to gather as much data as possible in order to make the best trades, regardless of what market you are working in; it is important to keep in mind that if you don't use it in the right way then it is all for naught. There are two ways to get the most out of any of the data that you gather, the first is via technical analysis and the second is via fundamental analysis. As a general rule, you will likely find it helpful to start off with fundamental analysis before moving on to technical analysis as the need arises.

To understand the difference between the two you may find it helpful to think about technical analysis as analyzing charts while fundamental analysis looks at specific factors based on the underlying asset for the market that you are working in. The core tenant of fundamental analysis is that there are related details out there that can tell the whole story when it comes to the market in question while technical analysis believes that the only details that are required are those that relate to the price at the moment. As such, fundamental analysis is typically considered easier to master as it all relates to concepts less expressly related to understanding market movement exclusively. Meanwhile, technical analysis is typically faster because key fundamental analysis data often is only made publicly available on a strict, and limited, schedule, sometimes only a few times a year meaning the availability for updating specific data is rather limited.

Fundamental Analysis Rules

The best time to use fundamental analysis is when you are looking to gain a broad idea of the state of the market as it stands and how that relates to the state of things in the near future when it comes time to actually trading successfully. Regardless of what market you are considering, the end goals are the same, find the most effective trade for the time period that you are targeting.

Establish a baseline: In order to begin analyzing the fundamentals, the first thing that you will need to do is to create a baseline regarding the company's overall performance. In order to generate the most useful results possible, the first thing that you are going to need to do is to gather data both regarding the company in question as well as the related industry as a whole. When gathering macro data, it is important to keep in mind that no market is going to operate in a vacuum which means the reasons behind specific market movement can be much more far reaching than they first appear. Fundamental analysis works because of the stock market's propensity for patterns which means if you trace a specific market movement back to the source you will have a better idea of what to keep an eye on in the future.

Furthermore, all industries go through several different phases where their penny stocks are going to be worth more or less overall based on general popularity. If the industry is producing many popular penny stocks, then overall volatility will be down while at the same time liquidity will be at an overall high.

Consider worldwide issues: Once you have a general grasp on the current phase you are dealing with, the next thing you will want to consider is anything that is going on in the wider world that will after the type of businesses you tend to favor in your penny stocks. Not being prepared for major paradigm shifts, especially in penny stocks where new companies come and go so quickly, means that you can easily miss out on massive profits and should be avoided at all costs.

To ensure you are not blindsided by news you could have seen coming, it is important to look beyond the obvious issues that are consuming the 24-hour news cycle and dig deeper into the comings and goings of the nations that are going to most directly affect your particular subsection of penny stocks. One important worldwide phenomenon that you will want to pay specific attention to is anything in the realm of technology as major paradigm shifts like the adoption of the smartphone, or the current move towards electric cars can create serious paradigm shifts.

Put it all together: Once you have a clear idea of what the market should look like as well as what may be on the horizon, the next step is to put it all together to compare what has been and what might to what the current state of the market is. Not only will this give you a realistic idea of what other investors are going to do if certain events occur the way they have in the past, you will also be able to use these details in order to identify underlying assets that are currently on the cusp of generating the type of movement that you need if you want to utilize them via binary option trades.

The best time to get on board with a new underlying asset is when it is nearing the end of the post-bust period or the end of a post-boom period depending on if you are going to place a call or a put. In these scenarios, you are going to have the greatest access to the freedom of the market and thus have the access to the greatest overall allowable risk that you are going to find in any market. Remember, the amount of risk that you can successfully handle without an increase in the likelihood of failure is going to start decreasing as soon as the boom or bust phase begins in earnest so it is important to get in as quickly as possible if you hope to truly maximize your profits.

Understand the relative strength of any given trade: When an underlying asset is experiencing a boom phase, the strength of its related fundamentals is going to be what determines the way that other investors are going to act when it comes to binary options trading. Keeping this in mind it then stands to reason that the earlier a given underlying asset is in a particular boom phase, the stronger the market surrounding it is going to be. Remember, when it comes to fundamental analysis what an underlying asset looks like at the moment isn't nearly as important as what it is likely to look like in the future and the best way to determine those details is by keeping an eye on the past.

Quantitative Fundamental Analysis

The sheer volume of data and a large amount of varying numbers found in the average company's financial statements can easily be intimidating and bewildering for conscientious investors who are digging into them for the first time. Once you get the hang of them, however, you will quickly find that they are a goldmine of information when it comes to determining how likely a company is to continue producing reliable dividends in the future.

At their most basic, a company's financial statements disclose the information relating to its financial performance over a set period of time. Unlike with qualitative concepts, financial statements provide cold, hard facts about a company that is rarely open for interpretation.

<u>Important statements</u>

Balance sheet: A balance sheet shows a detailed record of all of a company's equity, liabilities and assets for a given period of time. A balance sheet shows a balance to the financial structure of a company by dividing the company's equity by the combination of shareholders and liabilities in order to determine its current assets.

In this case, assets represent the resources that the company is actively in control of at a specific point in time. It can include things like buildings, machinery, inventory, cash and more. It will also show the total value of any financing that has been used to generate those assets. Financing can come from either equity or liabilities. Liabilities include debt that must be paid back eventually while equity, in this case, measures the total amount of money that its owners have put into the business. This can include profits from previous years, which are known collectively as retained earnings.

Income statement: While the balance sheet can be thought of as a snapshot of the fundamental economic aspects of the company, an income statement takes a closer look at the performance of the company exclusively for a given timeframe. There is no limit to the length of time an income statement considers, which means you could see them generated month to month, or even day to day; however, the most common type used by public companies are either annual or quarterly. Income statements provide information on profit, expenses, and revenues that resulted from the business that took place over the specific period of time.

Cash flow statement: The cashflow statement frequently shows all of the cash outflow and inflow for the company over a given period of time. The cash flow statement often focuses on operating cash flow which is the cash that will be generated by day to day business operations. It will also include any cash that is available from investing which is often used as a means of investing in assets along with any cash that might have been generated by long-term asset sales or the sale of a secondary business that the company previously owned. Cash due to financing is another name for money that is paid off or received based on issuing or borrowing funds.

The cash flow statements are quite important as it is often more difficult for businesses to manipulate it when compared to many other types of financial documents. While accountants can manipulate earnings with ease, it is much more difficult to fake having access to cash in the bank where there is none that really exists. This is why many savvy investors consider the cash flow statement the most reliable way to measure a specific company's performance.

Finding the details: While tracking down all the disparate financial statements on the company's you are considering purchasing stock in can be cumbersome, the Securities and Exchange Commission (SEC) requires all publicly traded companies to submit regular filings outlining all of their financial activities including a variety of different financial statements. This also includes information such as managerial discussions, reports from auditors, deep dives into the operations and prospects of upcoming years and more.

These types of details can all be found in the 10-K filing that each company is required to file every year, along with the 10-Q filing that they must send out once per quarter. Both types of documents can be found online, both at the corporate website for the company as well as on the SEC website. As the version that hits the corporate site doesn't need to be complete, it is best to visit SEC.gov and get to know the Electronic Data Gathering, Analysis, and Retrieval system (EDGAR) which automates the process of indexing, validating, collecting, forward and accepting submissions. As this system was designed in the mid-90s, however, it is important to dedicate some time to learning the process as it is more cumbersome than 20 years of user interface advancements have to lead you to expect.

Qualitative Fundamental Analysis

Qualitative factors are generally less tangible and include things like its name recognition, the patents it holds and the quality of its board members. Qualitative factors to consider include:

Business model: The first thing that you are going to want to do when you catch wind of a company that might be worth following up on is to check out its business model which is more or less a generalization of how it makes its money. You can typically find these sorts of details on the company website or in its 10-K filing.

Competitive advantage: It is also important to consider the various competitive advantages that the company you have your eye on might have over its competition. Companies that are going to be successful in the long-term are always going to have an advantage over their competition in one of two ways. They can either have better operational effectiveness or improved strategic positioning. Operational effectiveness is the name given to doing the same things as the competition but in a more efficient and effective way. Strategic positioning occurs when a company gains an edge by doing things that nobody else is doing.

Changes to the company: In order to properly narrow down your search, you will typically find the most reliable results when it comes to companies that have recently seen major changes to their corporate structure as it is these types of changes that are likely to ultimately precede events that are more likely to see the company jump to the next level. The specifics of what happened in this instance are nearly as important as the fact that statistically speaking, 95 percent of companies that experience this type of growth started with a significant change to the status quo.

TECHNICAL ANALYSIS

When working with technical analysis you are always going to want to remember that it functions because of the belief that the way the price of a given trade has moved in the past is going to be an equally reliable metric for determining what it is likely to do again in the future. Regardless of which market you choose to focus on, you'll find that there is always more technical data available than you will ever be able to realistically parse without quite a significant amount of help. Luckily, you won't be sifting through the data all on your own, and you will have numerous technical tools including things such as charts, trends, and indicators to help you push your success rates to new heights.

While some of the methods you will be asked to apply might seem arcane at first, the fact of the matter is that all you are essentially doing is looking to determine future trends along with their relative strengths. This, in turn, is crucial to your long-term success and will make each of your trades more reliable practically every single time.

Understand core assumptions: Technical analysis is all about measuring the relative value of a particular trade or underlying asset by using available tools to find otherwise invisible patterns that, ideally, few other people have currently noticed. When it comes to using technical analysis properly you are going to always need to assume three things are true. First and foremost, the market ultimately discounts everything; second, trends will always be an adequate predictor of price and third, history is bound to repeat itself when given enough time to do so.

Technical analysis believes that the current price of the underlying asset in question is the only metric that matters when it comes to looking into the current state of things outside of the market, specifically because everything else is already automatically factored in when the current price is set as it is. As such, to accurately use this type of analysis all you need to know is the current price of the potential trade in question as well as the greater economic climate as a whole.

Those who practice technical analysis are then able to interpret what the price is suggesting about market sentiment in order to make predictions about where the price of a given cryptocurrency is going to go in the future. This is possible due to the fact that pricing movements aren't random. Instead, they follow trends that appear in both the short and the long-term. Determining these trends in advance is key to using technical analysis successfully because all trends are likely to repeat themselves over time, thus the use of historical charts in order to determine likely trends in the future.

When it comes to technical analysis, the what, is always going to be more important than the why. That is, the fact that the price moved in a specific way is far more important to a technical analyst then why it made that particular movement. Supply and demand should always be consulted, but beyond that, there are likely too many variables to make it worthwhile to consider all of them as opposed to their results.

Price charts

Technical analysis is all about the price chart which is a chart with an x and y axis. The price is measured along the vertical axis and the time is measured via the horizontal axis. There are numerous different types of price charts that different types of traders prefer, these include the point and figure chart, the Renko chart, the Kagi chart, the Heikin-Ashi chart, the bar chart, the candlestick chart, the line chart, and the tick chart. However, the ones you will need to concern yourself with at first are going to be included in any forex trading platform software and are the bar chart, the candlestick chart, the line chart, and the point and click chart which is why they are outlined in greater detail below.

Line chart: Of all the various types of charts, the line charts is the simplest because it only presents price information in the form of closing prices in a fixed time span. The lines that give it its name are created when the various closing price points are then connected with a line. When looking at a line chart it is important to keep in mind that they will not be able to provide an accurate visual representation of the range that individual points reached which means you won't be able to see either opening prices or those that were high or low prior to close. Regardless, the closing point is important to always consider which is why this chart is so commonly referred to by technical traders of all skill levels.

Bar chart: A bar chart takes the information that can be found in a line chart and expands upon it in a number of interesting ways. For starters, the chart is made using a number of vertical lines that provide information on various data points. The top and bottom of the line can then be thought of as the high and low of the trading timeframe respectively while the closing price is also indicated with a dash on the right side of the bar. Furthermore, the point where the currency price opened is indicated via a dash and will show up on the left side of the bar in question.

Candlestick chart: A candlestick chart is similar to a bar chart, though the information it provides is much more detailed overall. Like a bar chart it includes a line to indicate the range for the day, however, when you are looking at a candlestick chart you will notice a wide bar near the vertical line which indicates the degree of the difference the price saw throughout the day. If the price that the stock is trading at increases overall for the day, then the candlestick will often be clear while if the price has decreased then the candlestick is going to be read.

Point and figure chart: While seen less frequently than some of the other types of charts, a point and figure chart has been around for nearly a century and can still be useful in certain situations today. This chart can accurately reflect the way price is going to move, though it won't indicate timing or volume. It can be thought of as a pure indicator of price with the excessive noise surrounding the market muted, ensuring nothing is skewed.

A point and figure chart is noticeable because it is made up of Xs and Os rather than lines and points. The Xs will indicate points where positive trends occurred while the Os will indicate periods of downward movement. You will also notice numbers and letters listed along the bottom of the chart which corresponds to months as well as dates. This type of chart will also make it clear how much the price is going to have to move in order for an X to become an O or an O to become an X.

Trend or range: When it comes to using technical analysis successfully, you will want to determine early on if you are more interested in trading based on the trends you find or on the range. While they are both properties related to price, these two concepts are very different in practice which means you will want to choose one to emphasize over the other. If you decide to trade according to trend, then you are more interested in going with the flow and choosing stocks to trade while everyone else is having the same idea.

Chart Patterns to Be Aware Of

Flags and Pennants: Both flags and pennants show retracement, that is deviations that will be visible in the short term in relation to the primary trend. Retracement results in no breakout occurring from either the resistance or support levels but this won't matter as the security will also not be following the dominant trend. The lack of breakout means this trend will be relatively short term. The resistance and support lines of the pennant occur within a larger trend and converge so precisely that they practically form a point. A flag is essentially the same except that the resistance and support lines from the flag will be essentially parallel instead.

If you are looking for them, both flags and pennants are more likely to be found in the mid-section of the primary phase of the trend. They can last up to two weeks before being absorbed back into the primary trend line. They are typically associated with falling volume which means that if you notice a flag or a pennant and the volume is not falling then you are more likely actually seeing a reversal which is an actually changing trend instead of a simple retracement.

Head Above Shoulders Formation: If you are looking for indicators of how long any one particular trend is likely to continue, then looking for a grouping of three peaks in a price chart, known as the head above shoulders formation, can indicate a bearish pattern moving forward. The peaks to the left and to the right of the primary peak, also known as the shoulders, should be somewhat smaller than the head peak and also connect at a specific price. This price is known as the neckline and when it reaches the right shoulder the price will likely then plunge noticeably.

The inverse head and shoulders (or head and shoulders bottom) is a sign that the price of the security in question is about to rise in the face of an existing downward trend. It typically forms at the lowest overall price of the trend.

Based on the analysis of the peak-and-trough pattern from the Dow Theory, an upward trend is then seen as indicative of a series of successive rising troughs and peaks. Meanwhile, a downward trend is indicative of a series of lower peaks and deeper troughs. If this is the case, then the head and shoulders pattern represents a weakening of an existing trend as the troughs and peaks deteriorate.

The head and shoulders top forms at the peaks of an upwards trend and signals that a reversal is often forthcoming through a process of four steps. The first of these starts with the creation of the far-left shoulder which can be formed when the cryptocurrency reaches a new high before dropping to a new low. This is then followed by the formation of the head which occurs when the security reaches an even higher high before retracing back to the low found in the left shoulder. Finally, the right shoulder is formed from a high that is lower than the high found in the head, countered by a retracement back to the low of the left shoulder. The pattern is then completed when the price drops back below the neckline.

Gann: While not universally trusted, Gann indicators have been used by traders for decades and remain a useful way of determining the direction a specific currency is likely to move next. Gann angles are used to determine certain elements of the chart include price, time and pattern which makes it easier to determine the future, past and even present of the market as well as how that information will determine the future of the price.

While you could be forgiven for thinking they are similar to trend lines, Gann angles are actually a different beast entirely. They are, in fact, a series of diagonal lines that move at a fixed rate and can likely be generated by your trading program. When they are compared to a trend line you will notice the Gann angle makes it possible for users to determine a true price at a specific point in the future assuming the current trend continues at its current strength.

Due to the fact that all times exist on the same line, the Gann angle can then also be used to predict resistance, support and direction strength as well as the timing on bottoms and tops as well. Gann angles are typically used to determine likely points of support and resistance and it is easy to get started with as it only requires the trade to determine the proper scale for the chart before drawing in the relevant Gann angles from the primary bottoms to the tops.

Essentially, this means that they make it less complicated for the trader to properly frame the market and thus makes it easier for them to predict the way the market is likely to move in the future based on the way it is currently moving in the predetermined framework. Angles that indicate a positive trend determine support and angles that show a downward trend outline resistance. This means that by understanding the accurate angle of a chart, the trader can more easily determine the best time to buy or sell far more simply than what could otherwise be the case. When utilizing Gann angles it is crucial that you keep in mind all the different things that can potentially cause the market to change between specific angles.

Cup and handle formation: The cup and handle formation most commonly appears if given security reaches a peak price before dropping off significantly for a prolonged amount of time. Sooner than later, however, the security will rebound, which is the perfect time to buy. This is an indicator of a trend that is rapidly rising which means you are going to want to take advantage of it as soon as possible before you miss out.

The handle will form on the cup when those who purchased the security at the previous high-water mark and couldn't wait any longer begin to sell which makes new investors interested who then begin to buy as well. This type of formation does not typically form quickly, and indeed, has been known to take a year or more to become visible.

Ideally, you will then be able to take advantage of this trend as soon as the handle starts to form. If you see the cup and handle forming, you will still want to consider any other day to day patterns that may be interfering with the overall trend as they are going to go a long way when it comes to determining the actual effectiveness of buying in at a specific point.

Trend lines

Trend lines represent the typical direction that a given underlying asset is likely to move in and, thus, can be very beneficial for traders to highlight prior to trading. This is easier said than done, however, due to the high degree of volatility that assets of all types experience on a regular basis. As such, you will find it much more useful to consider only the highs and lows that the underlying asset experiences as this will make it far easier to determine a workable pattern. Once you have determined the highs and the lows for the underlying asset it then becomes much easier to determine if the highs are increasing while the lows are decreasing or vice versa. You will also want to remain alert to the possibility of sidewise trends, where the price doesn't move much of anywhere, as this is a sign that you should avoid trading for the time being.

When watching the trend lines, you will likely notice that the price movement of a given underlying asset tends to bounce off the same high and low points time after time. These are what are known as resistance and support levels and identifying them makes it easier for you to determine the supply and demand of the coin in question. The support level is the level that the price is unlikely to drop below because there are always going to be traders who are willing to buy at that point, driving demand back up. Once the price reaches the point where traders feel the price is unlikely to go any higher, they start to sell, and a level of resistance is created.

Moving averages: The most commonly used confirmation tool is one that is referred to as the moving average convergence divergence or MACD for short. This tool measures the amount of difference that there is between two averages that have been smoothed to minimize ancillary noise.

The difference between the two results is then further smoothed by the process before then being matched against the moving average that it relates to as well. If the resulting smoothed average is still greater than the existing moving average, then you can be sure that the positive trend you were chasing actually exists. Meanwhile, if the smoothed average ends up below the existing moving average than any negative trends will be confirmed instead.

The moving average convergence divergence indicator is a type of oscillating indicator that primarily moves between zero and the centerline. If the MACD value is high then you can assume the related underlying asset is nearly overbought and if the value is low, then the stock is nearly oversold.

The MACD chart is typically based on a combination of several EMAs. These averages can be based on any timeframe, though the most common is the 12-26-9 chart. This chart is typically broken into multiple parts, the first of which is the 26-day and 12-day chart. Mixing up the EMAs will allow you to more accurately gauge the level of momentum that the trend you are tracking is experiencing.

If the 12-day EMA ends up above the 26-day EMA, then you can assume the underlying stock in on an uptrend and the reverse indicates a downtrend. If the 12-day EMA increases more quickly than the 26-day EMA then the uptrend is going to be even more well-pronounced. However, if the 12-day EMA moves closer to the 26-day EMA then you can safely assume that it is starting to slow, and the momentum is waning, which means it is going to take the trend with it.

The MACD uses the EMA by considering the difference between them once they are plotted out. If the 26-day and the 12-day are the same, then the MACD equal out to 0. If the 12-day ends up at a higher point than the 26-day then you can assume the MACD is positive, if not, it will be negative. The greater the difference between the two, the greater the difference between the MAACD line and zero.

From there, you will then want to take into account the 9-day EMA as well. The 9-day EMA is different in that it determines the trend of the AMCD line as opposed to that of the stock price. As such, if the 9-day EMA smooths out the movement of the MACD line the results are going to be far more manageable.

If the result then generates a trend that indicates a negative amount of divergence, then you can be quite certain that the positive trend that is currently taking place is ultimately going to hit a level of resistance that it simply won’t be able to overcome.

CHAPTER 6 : MINDSET AND EMOTION CONTROL

The first thing that we need to do when setting up our own accounts with options trading is to make sure that we are prepared mentally to handle all of this. Options trading is a great investment tool and if you use it in the proper manner, you can make a lot of money in the process. With that said, there are some risks, and you need to take the right steps from the beginning to determine how to get started. Because of this, some of our first tips are going to explore how you can prepare yourself mentally to become a successful options trader. Some of the things that you can do to accomplish this include:

Tip 1: Find a Broker

One of the first things that you should do when trying to get yourself set up for options trading is to find a broker to invest with. A broker is going to be your best friend right from the very beginning. They will determine the fees that you have to pay for each trade that you do. They will answer your questions as you go along. They will provide you with the platform that you will use when you utilize their services as well.

Picking out a good broker is so important when you are trying to see some results with options trading. When you are searching for a good broker, make sure that you spend some time discussing their fees and what services that they offer. You will be amazed at the different prices that each one is going to suggest for the same kinds of services, and it is always better to know this ahead of time. If someone offers a higher price but also has more services for that price, it is worth considering them. But if a broker has a higher price and fewer services, it is fine to go with someone else and take a better deal.

Once you have an idea of the fees you will be paying with each broker and how much value they will provide to you, it is time to move on to asking them some questions. Go in with a list of questions that you have and make sure they all get answered. Discuss how the fees are, how much they are able to help you with the trades, how the platform works, what kind of assets they offer for options trading and more.

You should feel fully confident with the broker you wish to work with. There are many brokers out there, but not all of them are going to offer the services that you want, some may not be able to answer your questions, and others just may not put you at ease like you want. After interviewing a few different brokers, you should have a good idea of who you would like to work with on all your trading endeavors and you can choose to go with them.

One thing that you should consider when you are looking for a broker. Many of these brokers will allow you to take a practice run or two on one of their demo accounts. This can benefit you in a few ways. First, it gives you the opportunity to try out the platform that the broker is offering and see if it is the right one for you. If you feel that something is off with the platform or it just isn't working well for you, at least you will know this ahead of time.

Another benefit of trying a demo account, if it is offered, is that you get a chance to try out a few of your trades ahead of time, to see how they work and determine if you actually know what you are doing, and if you are using the strategies in the proper way, before you enter the market. If you find that some of your trades aren't going well, you can then re-evaluate your plan and work from there.

Once you have picked out the broker you would like to work with, it is time to set up your account. Check and see if there are any minimum amounts that you need to put in your account to get started and then deposit the amount that you want to have. Some people add in all of the capital that they want to save for the investment into the account right away, and others will just put in the amount they need for that particular trade. Check and see what the rules are with your broker.

Once your money is in the account, you can start to do your research and determine which trades you want to use. You will want to make a trading plan ahead of time, one that outlines your risks, that says what strategy you want to use, and the entry and exit points that you should use and more. This helps you to see what steps you should take in order to start the trades and see the success right away.

After doing your research and setting up the plan, you can give the broker your orders. This tells them what securities to purchase, how many, for what price, and some of the other requirements that you set out. Then stick with the trading plan to make the best decisions to make the trade work out in your favor.

Tip 2: Have some confidence in your trading strategy

As a new trader, you need to spend some time thinking about the trading strategy that you want to use. This particular plan is going to encompass everything that you have already learned about trading, about the markets, and how to apply all of the different techniques. After you sit down and think about the trading approach that you want to work with, then it is time to implement it. Not only do you need to have a plan written out and ready to go though. You must also have the right confidence in this strategy to ensure that you will implement it and get the full benefits from it.

Because of this, no matter what kind of trader you are, always consider the reasons as to why you are taking on this particular type of trade, why you have chosen a certain amount of funds for that trade, and what the profit targets are for this trade. Ideally, the trading strategy is also going to include some reasons as to why you have taken a particular trade.

No matter how tempting it may be to do this, never proceed with a new trade before all of this information is established. Once you have established a reason why you want to go into a particular trade. From there, you can set up a profit target and the right risk parameters to see some results.

For example, you may write out a plan where you have decided that the if the market does move to point A, then you are going to count your losses and then move yourself on to the next trade. But, if the market instead moves to point B, then you are going to take the profits and will strategize on the following trade you want to do. This is an approach that is known as plan your trades then trade your plans. It is always a good idea to stay disciplined with your trades and then stick to the plan as much as possible. If you are able to maintain this approach, then you are establishing a great foundation for options trading and seeing results.

Tip 3: Be Comfortable with Your Trading Capital

There is no trader out there, whether it comes with options or another security or investment opportunity, who wants to lose money. If they did, they wouldn't waste their time even trying to invest or trade. However, most options trader understand that it is possible to trade options and make money sometimes, and lose money the other times.

Basically, if you get into the options market and you are not ready to accept the risk that you may lose money, then you are going to start trading on your emotions. And trading on your emotions is a terrible thing to do. Once this happens, you may as well just throw your money in the trash. Emotional trading is going to throw discipline out of the window and you will stand no chance of performing as expected.

Before you enter the market, knowing that it is possible that you could lose money and with the idea that your emotions should be kept away, make sure that you are comfortable with the amount of capital that you are trading. There are different rules out there to help you determine how much you should invest and risk. Many experts recommend you stick with about two percent of your total account.

What this means is that when you enter into a trade, you should never risk more than two percent of the total account. This way, if you do lose money, you won't risk the whole account, and you can still have some capital set aside to help you move on to a new trade, without wiping it all out. You can choose to go with a different set amount on any trade, but making sure that you set this amount in the beginning and then stick with it, can really go a long way in helping you to do well with your trades, can keep your emotions out of the game, and ensures that you don't wipe out your account on one trade.

Tip 4: Keep Your Expectations Realistic

It is easy to get caught up in the idea of doing options. You are excited to jump right in. And maybe you have heard about others who jumped into the market and saw a lot of success in the process. They made a lot of money and did really well with this kind of market. It is good to have some excitement when you first get started, but this doesn't mean that you can run with reckless abandon and just go into the market without having some realistic expectations.

There are going to be some really good trades. And then there are going to be some really bad trades. And as a beginner, you are more likely to run into the bad trades as you learn the ropes and how to make it all come together. The best thing that you can do in this situation is make sure that your expectations are realistic the whole time, and to not get carried away.

Remember that you should never let your emotions take over or take control over what you are doing with your trades. When you forget to keep your expectations realistic, you are letting the emotions come into play. When you start with trading, think that it is possible you will lose a few trades, and then work on a trading plan that helps to avoid this as much as possible. Just realize that all beginners are going to lose some money, and then work on a program and a plan that can help you avoid this.

Tip 5: Your Psychology Is Important

The way that you handle the market is going to be so important. In fact, the psychology that you have going into the trade is going to be your foundation. It doesn’t matter if you are a commodities, options, or stock trader. The conditions in the market that you pay attention to are never constant, and there are a lot of changes. And there are times that even with the best preparation and understanding of the market, you will end up losing money. Because of this, it is important that you have a strong foundation that will help you face all of the challenges that the market may and will bring your way.

There are a lot of bad things that can happen in the market, and in 2008 (along with many other times) those things did occur. For example, there are bailouts from the government, housing crisis, the dot-com bubble, and more. Many times these can be seen and the more advanced traders will get out of the market with time to spare. But there are times that even the experts get caught up, and then they lose money in the process.

However, traders need to have a nice strong foundation to help them weather through these storms. These storms are going to happen, no matter how much you work to try and avoid them. Traders who are able to keep their emotions out of the game, who can keep their levels of risk down to a minimum, and who can pick themselves back up after a loss are the ones who are going to be the winners overall.

Getting started with options trading can be really difficult to work with. You must make sure that you are able to set up your account the proper way, and that you know what to expect with all of the different aspects. But if you are able to get your psychology in the right place, find a good broker, and have the right amount of capital in place, you are going to see some amazing results.

CHAPTER 7: ADVANCED STRATEGIES IN OPTION TRADING

While this strategy requires a good deal of micromanaging in order to be successful, it is also beneficial in several ways. The first of which is that if you choose to wait until you see the right trigger then you know that other traders are already creating action around the currency pair in question which means you can be fairly certain that the trade will be profitable. Additionally, this is a great strategy to use for those who have a lower amount of starter capital as it will make it easier to jump in on a given currency pair before the momentum picks up steam and the bullish nature of the pair causes the price to raise to a less tantalizing point.

In addition to making it easy to buy cheap, those who use this strategy when it comes to selling currency pairs they currently own will be able to do so to maximize their profits as they will be able to get out of a given trade before the masses do so, thus ensuring a higher price when they sell. It is important to remember, however, that the price could instead experience a short-term retracement which means you need to be sure of what the signals are telling you before you make a move if you don’t want to pay the price for jumping out early.

STARTER STRATEGIES

In order to ensure a level of maximum profit with this strategy, you are going to need to set your stop losses at such a point that they are just underneath the last high that the currency experienced. If you are investing in short positions then you will want to set your stop losses so they are just above the current low price point instead. This will ensure that you don’t lose out if the trend loses momentum before it reaches the price you are hoping for. By doing so you ensure that the short-term strategy remains as versatile as possible.

This strategy is not without risks of its own, however, as the short-term charts are prone to changing dramatically with little or no advanced notice.

This means that if you hope to profit when using this strategy, you are going to need to make sure that you have the ability to react quickly to unexpected changes. The best reaction most of the time is going to be waiting for the currency to settle down before setting a new stop loss based on the new landscape that is slightly in the money without getting greedy.

Fibonacci retracement: To use a Fibonacci retracement, the first thing you are going to want to look for is a market that is trending. The general idea here is to go long on a retracement, a temporary reversal of direction in the price of the currency, at a specific level when the market is positively trending and to go short on retracements when the market is trending in the other direction. To find a retracement level you are going to want to find moments when pricing indicators you are looking for reach high, or low, points that are higher, or lower, than the average high, or low, point.

STRATEGIES IN THE NEST AND IN THE BAD SITUATION

To understand the Fibonacci ratios that are useful in forex, it is important to understand the basics behind the Fibonacci numbers which were discovered by the man whose name they bear; they start off as 0, 1, 2, 3, 5, 7, 13, 21, etc. Essentially, to find the next number in the sequence you simply add the previous 2 numbers in the sequence together. Now, if you measure the ratio of each number to the following number in the sequence you get the Fibonacci ratios that are used in forex. These start off as .236, .382, .5, .618 etc. While the exact reason that Fibonacci ratios apply to the forex market isn't completely clear, it is clear that they resonate throughout the world at large from the smallest instance in individual molecules of DNA to the grandest in the organization of the planets in the sky.

Luckily, when it comes to utilizing the Fibonacci ratio in your trades, you don't need to memorize these numbers as all forex trading platforms will have a tool that will do the calculations for you. This means that all you really need to do is to learn how, when and why to use them in a technical analysis sense. It is important to keep in mind that Fibonacci levels are going to act as resistance as well as support for the price in question. As the price increases, the Fibonacci levels will act as resistance and as the price decreases, they will act as support. Additionally, much like with regular support or resistance they can be broken.

Trades that are based around the Fibonacci retracement on the charts for timeframes less than 10 minutes. Fibonacci retracements can be used to determine reasonable reward/risk levels either by selling a credit spread to the level in question or through buying options that are already in the money that are likely to experience a bounce at these levels. It is generally going to be in your best interest to look for Fibonacci levels that are likely to overlap at multiple timeframes as well as corresponding to the most recent trend experienced by the underlying stock. If you are so inclined, you can also utilize candlestick price patterns as a means of confirming a buy at specific Fibonacci levels.

Alternately, you may find success with oversold or overbought indicators when it comes to range-bound or trendless stocks. You can then sell credit spreads or buy into options that are already in the money and near the current level of resistance and support with tight stops. It is important to keep in mind that a given stock might not move quickly enough to make these levels worthwhile so it is important to do your research ahead of time in order to have a reasonable expectation about the future movement.

Indicators that are used to signal lower than average volatility such as Bollinger bands are especially useful when it comes to place trades that you anticipate big moves from. Breakout indicators time, especially for the shorter charts, is also especially useful.

Using the Fibonacci sequence to perform a retracement gives you the ability to determine how much an asset moved at price initially. It uses multiple horizontal lines to point out resistance or support at 23.6, 38.2, 50, 61.8 or 100 percent. When used properly they make it easier to identify the spots transactions should be started, what prices to target and what stop losses to set.

This doesn’t mean that you should apply the Fibonacci retracements blindly as doing so can lead to failure as easily as it can success. It is important to avoid choosing inconsistent reference points which can easily lead to mistakes as well as misanalysis, for example, mistaking the wick for the body of a candle. Retracements using the Fibonacci sequence should always be applied wick-to-wick which in turn leads to a clearly defined and actionable resistance level.

Likewise, it is important to always keep the big picture in mind and keep an eye on trends that are of the longer variety as well. Failing to keep a broad perspective in mind makes short-term trades more likely to fail as it makes it harder to project the correct momentum and direction any potential opportunities might be moving in. Keeping the larger trends in mind will help you pick more reliable trades while also preventing you from accidentally trading against a specific trend.

SPREAD STRATEGIES

Options trading attracts many advantages. You can make a lot of profit and even limit your losses if you know how to make the market work for you. The best thing that you can do is pick out the right strategy that is meant to help you no matter how the market is moving. Later in this guidebook, we are going to take an in-depth look at each of these strategies, as well as take a look at a case study of how each one works so you can really get that strategy down. Let's previews some of the basics of each strategy, so you can get a feel for how they are all different and you can choose which strategy you think will work the best for you (DOWNEY, 2019).

First is the bull put spread. This is considered a directional and a credit spread. One advantage that you will find is that it is able to work against the time decay issue, so you won't lose money from that. You would choose to work with the bull put spread any time that you expect a stock to either fall, stay stagnant, or fall just a little bit (if at all) during the near future. The risk on this one is pretty low, so it is often a good strategy for beginners to get started with.

You can also choose to work with the bear call spread. This is another strategy that is directional, a credit spread, and gives you the advantage of working against the issue of time decay. You would choose to go with the bear call spread any time that you expect a fall, stagnant, or rise just a bit over the short term. This one is another low-risk strategy that can help you to get used to the market and see some results.

The bull call spread is the next strategy for options trading on our list. It is different from the other two in that it is a debit spread, and you will have to still work against the issue of time decay with it. It is still a directional choice, though, which is something you may be familiar with if you have used some of the other strategies. You will want to work with the bull call spread any time that you expect your stock is going to rise moderately over the short term. The risk that you will face when working with the bull call spread is considered to be moderate.

The bear put spread is one that is similar to the bull call spread, but it works in the opposite way. This is another debit spread, and it will not help you to fight against the issue of time decay, so you will have to limit the amount of time that you are holding onto the option. It is still considered one of the directional strategies, though. This is the strategy that you will work with any time that you think your chosen stock is going to fall moderately within a short amount of time. The risk that comes with this strategy is considered moderate, so a bit riskier than the first two we talked about, but not too bad for a beginner to work with.

Next on the list is the iron condor strategy. This one is considered a credit spread. You will still get the advantage against the time decay issue, but it is considered a non-directional strategy because you are betting against both directions rather than just one. You would choose to work with this strategy when you have a stock that is either stable and not moving all that much, or you have one that goes up and down, but those movements stay within a specified range and you think the stock will stay there for the short term. The risk on the iron condor strategy is considered low.

BOLLINGER BAND STRATEGIES

The importance of volatility when it comes to correctly valuing an option is well known. This is why Bollinger bands are so useful as they make it easy to grasp this facet of a particular stock, in turn, making it easier to identify lower and upper ranges. They work by generating bands based on the way the stock price has recently been moving. Bollinger bands tend to provide 2 types of indications:

- The bands tend to contract and expand depending on how volatility decreases or increases based on the way the price has been moving recently. If the bands expand then volatility is increasing, if they contract then volatility is decreasing. With this in mind, you can feel safer taking on reversal based option positions.
- The range of the current band can also be compared to the current market price as a means of determining any potential breakout patterns. If the breakout occurs at the top of the band, then you know the market has been overbought which means it is time to buy puts or short existing calls. If the breakout occurs at the bottom

of the lower band, then you know the market is oversold which means it is time to buy short puts or calls that come with lower overall volatility.

- Either way, it is important to take care to assure the current volatility as shorting options if volatility is high can be beneficial. It can lead to higher premiums if volatility is high and cheaper options if volatility is low. The best value for a Bollinger band is up to the trader. However, the most commonly used value is 2 for the standard deviation of the top and bottom bands and 12 for the simple moving average.

Overall, Bollinger bands are not designed to be used in a vacuum. Rather, they are better served as an additional indicator which can then provide traders with additional information when it comes to the volatility of price. Ideally, you will want to use them with at least 2 other indicators that are non-correlated and also provide market signals that are more direct. Using Bollinger bands under these circumstances will help you to discover opportunities that you may have otherwise missed with an overall higher degree of success.

BINARY OPTION STRATEGIES

Binary options are among the most commonly traded options. They are known by different names depending on the platform where they are trading. For instance, binary options are referred to as FROs or fixed return options when traded on the American Stock Exchange. On the Forex markets, they are referred to as digital options and sometimes as all-or-nothing options on the ASE or American Stock Exchange.

The reason why they are known as binary is that this options class offers returns or profits in two outcomes. This means you get something or nothing. In this instance where you have binary options, the profitability is usually a pre-set amount such as $100.

There are certain assets that can be traded as binary options. These assets include:

Stocks
Commodities
Currencies
Stock indices

The asset or nothing binary option pays the entire value of the underlying security. The cash or nothing binary option pays an investor a set amount of money should the option be in-the-money upon expiry. This is the reason why this type of options is referred to as binary. You can expect to receive only one of two outcomes investing in this particular options class.

The reasoning behind binary options day trading is pretty simple. As a trader, the aim is to enter a trade position and exit before the close of the trading day. All binary options contracts come with expiry times and dates. This means that most binary options contracts have a set expiry date except on trading platforms where traders have a variable expiry on options.

As a day trader, you should identify expiry dates that will conclude trades within the same day. This is because once you enter a trade that has an expiry date, you will not be able to exit manually the same way that you do with all other options trades.

Predetermined profits

When trading in binary options, you will already know what your potential profit will be. This is because the potential profit is always already pre-determined. Also, binary options can be applied to almost all types of securities and financial products as puts or calls.

This is why day trading with binary options is considered easy and quite profitable. As a trader, you can expect high returns that are paid out almost immediately. Apart from the high profitability of binary options, there are other advantages that they offer.

Additional benefits of binary options:

As a trader, you get to select variable expiry times to fit with your strategies.

There are no brokers so you will manage your own trading account.

You can trade diversified options at the same time.

You are allowed to make multiple small investments, which is similar to day trading but with limited risk exposure.

One trade can be sufficiently profitable to counter previous losses.

As a trader, you have trading opportunities throughout the day with no downtime.

With binary options, the potential to make profits is high and the turnaround times are remarkably fast.

Day traders have constant new opportunities as binary options markets keep expanding.

Security is high on these platforms largely due to the nature of private trading in the options trading market.

Volatility is not a big issue because risks are transparency and also options have short time frames.

If you want to be a smart trader, then you should ensure that you follow patterns and trends in the market. When you can identify a true trend, then you will be able to attain profits regularly on a continuing basis and with the need of changing strategy. However, should the trend fail to work because it was false or due to brief trading times, you must then exit the trade to minimize losses?

EXAMPLE OF TRADING

One popular way to work with options is as a hedge against a declining stock market to help limit the downside losses. In addition to protecting some of your personal assets, options are sometimes used to generate a recurring income. And some investors will choose to use these in a more speculative purpose, such as wagering on the direction that a stock will take.

Just like with any of the other choices that you make with investing, options will involve some risks and you must fully understand these and know how to avoid them as much as possible. This is why any time you want to start trading options with a broker, there is going to be some kind of disclaimer like the following to help you know about the risk with options.

CHAPTER 8: TIPS AND TRICKS FOR TOP TRADER

In this chapter, let's look at some things you should always remember in order to excel in your trading. Some of these we've already discussed in some capacity, but some we haven't. Go through them, and maybe even write them down somewhere so you can read them at least once every single day. I believe in the power of repetition, and so should you.

A stock price can move in 3 directions

When starting out, most traders forget that stock prices don't just go up or down. They can also stay the same; that's the third option. Beginners often forget about this third direction and subsequently lose money. Sometimes stock prices remain in a narrow range or just don't move at all.

Buying a call option means betting on the rise of the stock price. This means that if the price actually goes up, you will make a profitable trade, but if it doesn't, you won't. The price might not go down, but it might not go up either. If you bought an OOTM call and the price doesn't go up, you will lose all your money, as the option will be worthless after expiry. For an ITM call, you can at least get back your intrinsic value in case the price doesn't change.

One of the most aggravating things as a trader is seeing your call option expire just a few days before the price skyrockets. This teaches you an important lesson: sometimes you need to give your strategies more time. It's common to see traders buying short term call options hoping the stock price would rise quickly, but it stays flat the entire time. Then it goes up the next month when your option has expired. Near month options always carry this inherent risk, and this is also why longer-term options tend to be costlier as well.

The consensus in the market is that out of all the long call and put options, about 70% tend to lose money. This is supported by the concept that there are three directions the stock price could move in, not two. For sellers, this is good news. It means that 70% of them will make money, and this is also why many of the conservative traders move away from buying call and put options and start writing or selling covered calls or puts.

So, remember this when you make your next trade. Beginners often make this same mistake over and over, so it's in your interest to learn to break this bad habit.

Study the Chart

Before you make any trade, there's one thing you must always do, and I mean always. You need to look at the chart of the underlying stock and study it well. This is done to find trends, patterns, resistances, etc. So, you study the one-month chart first, then the three-month chart, and then for the whole year. You will be able to see whether there are any trends in the chart.

Do you notice that the stock price is climbing slowly but steadily? Or maybe it is slowly declining over a long period of time that might not have been visible in a short-term chart? Maybe it's just stuck in a narrow range and doesn't look like it will be moving soon. When you notice these things, you must question yourself whether these patterns are consistent with your starting strategy. See the general direction of the price, then draw a line through the middle of these stock prices. To see the channel it's trading in, simply draw two more lines - one at the top and one at the bottom.

Whenever you want to buy a new call, first ask yourself one simple question: why do you believe the price will rise? There is not much reason for a stock's price to go up to a certain point if it hasn't been trading there recently. That can change, of course, if some new information turns up or a new event takes place. These include things like upcoming shareholder meetings, upcoming earnings announcements, and new product/version releases.

Using Support Levels

Let's talk about support levels. Support level, often called just "support," is a certain price level below, which an asset doesn't fall for a certain period of time. This happens because whenever an asset's price dips low enough, new buyers enter the market.

While studying a stock's chart, if you notice that there is strong support at a particular price point and the current stock price has dipped that low, you can consider bouncing off that support level and make a profit. The call options will be cheaper, and the probability that the stock price will go back up is higher.

Using Resistance Levels

Resistance levels or resistance is similar to support levels in concept but the exact opposite in meaning. Unlike support, resistance is the price point above, which the asset's price struggles to rise. Whenever an asset's price reaches a certain point, there is a big influx of sellers who are willing to sell at the price. This leads to a price ceiling of a sort. However, it can be short-lived if some new information enters the market, changing the whole attitude of the market toward the stock.

So, if you notice solid resistance at high prices while studying the stock's chart, and you see that the current price is reaching that point soon, it's worth considering buying a put option. The chance that the price will fall off is high, and put options are cheaper during the time.

Using Stock Chart Channels

We can use the support and resistance levels to draw trendlines, and this gives us the trading channel. It's nothing but the section between these two trendlines. They're important because the market considers channels important and traders generally believe that stock prices don't usually go outside of these trading channels.

If the stock's price is currently at the lower level of the range, you can use it to make a small profit, because the price will most probably move back up. So, you can take advantage of this movement by buying a call when the price is low and selling it a short while later to make a profit.

That's how you identify the support, resistance, and channel of a stock price, and then use it to base future decisions on. It helps you make better predictions about the stock price.

Study the Option Chain

Okay so let's talk about Option Chains now, something you should always be looking out for. On any decent stock quotes page, you will see a button that either says "Option Chain" or just "Options". This is where you can see the full list of calls and puts that are available on that particular stock, and this list is generally divided into two separate columns. Call options are usually on the left, and put options are usually on the right. The expiration dates and stock prices of all the call and put options are also shown in the option chain.

The thing you need to take note of first is the expiration date. Earlier, options used to have a fixed expiration date. They all expired on the third Friday of every month, without question. But in recent years, option exchanges have changed things a lot, and now most of the active stocks have options with weekly expiration dates. It's become really important now to take note of the exact date your options are expiring.

Once that has been taken care of, you need to look at the strike prices available. Most stocks have strike prices in $5 increments, while some also have $2.50 or $1 increments.

Next, you need to look up the volume of the contracts being traded. In the volume column, you can see which ones are the most actively traded contracts. If you notice that there's a lot of volume on a certain strike price and expiration month, maybe that option is worth considering. You'd do well to avoid the contracts with very little or zero volume.

And then, finally, what you need to do is look at the spread between the asking price and the bid price of the option contracts that are being traded most heavily. If the spread is less than or equal to 10 cents, it's safe to trade it. A spread larger than 10 cents, however, signifies potential liquidity problems. You should not trade such options without careful consideration. So, try to avoid thinly traded calls and puts that have high spreads.

Sometimes, it is much easier to go where the smart money is instead of trying to find your own path. This is why starting with a high-volume option is a good idea. Start by asking yourself why you think so many people are trading that particular contract. You can also get a feel for the liquidity of the contracts and the incoming buy/sell orders if you have a streaming option chain. With streaming option chains, you can immediately see price movements because they refresh every second. Take note of how frequently and by how much the asks and bids change.

For beginners, it is often recommended that you start with a highly liquid stock like Apple or Google. It is very volatile, especially during the opening and closing hours of the day. So, take note of this during the first and last 15 minutes of a trading day, which is from 9:30 am to 4:00 pm ET. That's the time of most volatility generally. You will also notice the market activity going dull around noon when everyone goes for lunch, and then when they come back, the diminished volumes pick up again after about 1:00 pm ET.

Calculate the Break-Even Point

Once you've settled on a call or put option to buy, the next thing you should do is calculate its break-even point. For this, you need to take note of both the bid-ask spread and the commission charge, on the buy and sell trade both. To make a profit, you need to have full confidence that the option price will move more than the break-even point. And for this, the underlying stock needs to **even more** than that.

Break-Even Point Calculation

There are actually two break-even points that you need to calculate when trading options. For short term traders, the break-even point is calculated by using the bid-ask spread and commission charges. For long term traders who plan to hold the option until the expiration date, the break-even point is calculated by calculating where the underlying stock's price needs to be at the date of expiration.

Let's talk about short term trades first. Calculate the difference between the bid and ask prices, the bid-ask spread. Now, let's say your commission is $10, and the spread is 10 cents. So, for one contract, you have to overcome a spread of $10. You're also paying a $10 commission when buying and $10 commission when selling the option. This means you start out with a net loss of $30 already. To recover this and break even, your options bid price must increase at least 30 cents. If you buy two contracts, though, the bid price only needs to go up by 15 cents. This is because the spread will be divided among the two contracts and the commission will remain the same. For three contracts, it becomes even smaller. The option's bid price need only increase by 10 cents for you to break even.

For long term traders, however, this calculation differs. People who want to hold the option until the date of expiration needs to think differently and have a different approach from short term traders. In this case, we consider the price change in the underlying stock. For example, let's say you have a call option for Toyota Motors stock, and it expires in June. Suppose the stock is currently at $39, and the bid price of June $40 call option is $1.50 with a commission charge of $10 per buy or sell order. Then at the expiration date in June, you would need Toyota Motors stock to be at least $41.60 in order to cover the total cost of $160.

<u>The Trend is Your Friend</u>

We discussed earlier how you should always study the chart of the underlying stock before making any trades so you can recognize any trends or patterns before committing. This is where we use trends. Remember that options trading is all about identifying trends and profiting off them. Think of the trend as your friend and don't try to fight it.

This means that when the stock is continuously going up; meaning it is in an uptrend, don't expect it to go down. That's fighting the trend.

Similarly, trying to pick the bottom when the stock is in a downtrend is also a bad idea. Expect it to keep going down, because it most probably will. Guessing the direction is the name of the game, and that's what call and put option trades are based on.

Yes, there are exceptions to this, and it's not set in stone. **The trend is your friend**, but only until no outside factors are influencing it. Stock prices, just like everything else that is moving, have momentum, and it can be a big thing. Don't underestimate it. Until and unless some major news or event intervenes, expect the stock price to move in the direction it has already been moving in. Those events are few and far between, and they can be accounted for if you're cautious enough.

Personally, I find it better to jump on bandwagons and follow where the market is going. Amateurs don't have enough know-how to predict when a trend will break, but because of the Dunning Kruger effect, they think they are smart enough to beat the market. When the stock is in an uptrend, you might be tempted to think it won't last because it's been going up so fast for so long. But you will generally lose when trying to pick the top because momentum is a hell of a factor when it comes to stock price movements.

Similarly, when you see a stock in a downtrend, you might be tempted to think it has to rise now as it's been falling so fast for a while. Again, this is usually a bad idea and can lead to big losses. Fighting the trend is like trying to swim upstream. Make momentum your ally, instead, and watch closely as things happen in the market.

This is, of course, meant to be done while keeping in mind the support and resistance levels in mind. None of these tips work in a vacuum. They're meant to be used in sync within the right context.

<u>Earnings Releases</u>

Remember when we talked about new information entering the market or a big event happening that rapidly changes the attitude of the market? Yes, an earnings release is one of the best examples of this phenomenon.

When you're trading options, be very careful about the earnings release dates as they have a big impact on option prices. Options become very expensive around the week of an earnings release, both the call and put options. This is because there's potential for the earnings to go either way - very low or very high. This anticipation during the time of release date causes the price of the underlying stock to fluctuate significantly. If you know this, you can be wary of earnings release dates, and time your trades accordingly so you don't overpay for them.

Another relevant piece of information you should know is that immediately after this, the option prices will go down. Once the release is done, and the surprise is gone, the volatility dissipates, and option prices return to their normal rates.

Many times, you will notice that a stock price goes up while the call option price does the opposite. This is nothing to be shocked about and is fairly common, in fact. What could be the reason behind this, you ask? Well, sometimes people are anticipating very high earnings, but they turn out to be only moderately good. Let's study this with an example.

On one of Apple's earnings releases, which happen quarterly, their shares were trading at around $450. The $460 call options expiring the same Friday were at a whopping $20. This means that Apple's stock would have to climb $30 and go up to $480 in just 3 days for the call option traders to make a profit. They were expecting a $30 price movement, which is huge, so you can imagine what a big deal Apple's earnings release is.

Here's the funny thing, though. On the other side of the market, the $440 puts were also selling at $20, which meant that for these put option traders to make a profit, Apple's stock would have to fall $30. This means that half the market was betting on a price surge of $30 while the other half was expecting a price decrease of an equal amount.

So now the big question that you're obviously interested in is who won in the end, right? What happened? Did the stock go up or down? Well, it didn't do any of those things. Apple's earnings were just what the market was expecting, so the stock price didn't move at all. The next day, the stock was still at $450, and the option prices for both call and put options plummeted down to $3 each. That must've hurt, ouch! The buyers lost a ton of money, while the sellers made a fortune.

Ride Your Winners

This tip might seem problematic to some people, even some experienced traders, but that's just how things work in the options trading market. Remember that it will work in the right context.

Riding your winner's means holding on to your position when you have a profitable trade. It's a popular axiom in the stock and options trading market because it works. We've talked about how it's futile to fight the trend, and this is kind of a corollary of that tip. Since we know stock prices tend to move in the direction they've already been moving in, it's usually best to hold onto your position and let the trade make you even more profit.

"A bird in the hand is worth two in the bush" is so ingrained into our minds, right from when we are kids. It's tempting to cash out when we make a small profit. But it's different when it comes to stock and options trading because momentum plays a big role in predicting the future of the stock price. So, try to rest the urge to cash out when your trade becomes slightly profitable. Sit tight and let it move further along the direction of the trend.

Let's discuss an example, again going with Apple stock. Let's say the current price is $455 and you buy five $460 call options for $1000 total ($2 each). Then the next day, AAPL jumps up to $465 and your call is $5 ITM now. Now the $460 call option is trading for $6.50, and your $1000 investment is suddenly worth $3250. It's a clear profit of $2250, which you can pocket by cashing out suddenly.

But before you jump on that, **consider your options**. Sure, you can cash out immediately. But another thing you can do is use a stop loss order here. So, you put a stop loss order on the $460 call at $4.10 let's say. This way, you make sure even if the stock falls, you can pocket a 100% profit. If you do sell immediately and pocket $3250, you might then buy some $465 call options at around $1.50 each. This way, you keep some profits while also keeping some money on the table for potential future profits.

You can play this, either way; it depends on the particular scenario you're in, the current prices of the options, the performance of your other open positions, and your personal style. It's not a bad thing to play a bit conservatively. Just remember to consider your options and calculate the potential risks and rewards.

Cut Your Losses

When trading options, learning to cut your losses is one of the biggest lessons you can learn. It's one of the hardest things to do for novice traders because it takes courage. Our human psychology doesn't allow us to easily admit our mistakes, but when you have a losing trade, it's best to accept that you messed up and sell your position to minimize your loss. If your prediction turns out to be wrong and you start losing money, you need to limit your losses quickly before the stock moves even further and you end up losing all your money.

A good piece of advice which most experienced traders will give you is never to allow your losses to exceed 50% on any position. For example, if you bought an option at $4 and a couple of days later you see that it's down to $2, it might be best to cut your losses by selling it and recover $2 than losing all of it potentially.

Impact of Dividends

Another external force that greatly impacts the option prices is dividends. They can significantly change the market, so keep an eye out for when the underlying stock of your options goes ex-dividend.

What does it mean to go ex-dividend? Let me explain. Say, a stock goes ex-dividend on April 30th. This means that after April 29th, the stock will trade without dividends. April 29th is the day by which you will have to own the stock if you wish to receive the dividend. When the market closes that day, if you own the stock at that point, you will get your dividend, even if you sell it the moment the market opens the next day.

So how does this affect option prices? Well, what happens normally is that the dividend amount is automatically adjusted in the stock price when the market opens on the ex-dividend date. If a stock, for example, was $10 at the close on April 29th, and paid a dividend of $1 before going ex-dividend on April 30th, this $1 amount would have already been adjusted in the stock price when the market opened, and it would actually be $9.

You probably won't notice this for smaller dividends because the normal price fluctuation in the market is enough to cover this amount. But you will definitely notice this if the dividend is at least 5% or more of the stock price. So, if the underlying stock is worth $200 and it pays a $10 dividend, it will open at $190 the next morning once the dividend has already been paid.

And that's why dividends affect your trades! When you bought the $190 strike price call option, it had been 10 points ITM. But on the next day when it goes ex-dividend, it's no longer ITM… it's now ATM! And similarly, if you have an ATM put option before the ex-dividend date, it will be ITM the next morning when the stock goes ex-dividend!

Cash is King

You will often hear the trading tip that when trading options, "Cash is King," and it applies in more than one context. It builds upon the "Cut your losses" tip and the "Ride your winners" tip.

What it essentially means is that whenever you're in doubt, it's best to separate your emotions from the situation and get out. When you anticipate a stock to move in a particular direction, but it doesn't, it's natural to have second thoughts about your strategy. This is a signal that you might want to take the cash off the table.

Many people do this: they leave half the money on the table and sell half the position to give it some more time. This way, they can go to sleep peacefully knowing that they will still have money to trade the next day, no matter how badly things go. The mental impact of this is nothing to be underestimated because this way, you will always be right half the time.

It has two benefits. Firstly, whether you sell your whole position or half of it, you will be much less stressed at the end of the day, because you can just disconnect from all the news of the market and enjoy your evening. Limiting your exposure does wonders for your mind.

Secondly, this supports the other two tips I gave you earlier, as already mentioned. By **riding your winners,** you are only playing in profits that is the House's money, not your cash technically. And by **cutting your losses**, you are securing your cash by selling out losing positions.

Follow these tips, and you will avoid most mistakes that option traders make. This will enable you to make much better predictions and subsequently more profitable trades.

CHAPTER 9: MONEY MANAGEMENT CONCEPT

MONEY CONCEPT IN OPTION TRADING

When working with options, it can provide you with some good leveraging power. A trader will be able to buy an option position that will imitate their stock position quite a bit, but it will end up saving them a lot of money in the process.

Let's say that you saw that there was an opportunity to make a profitable trade, you were only able to spare about $1000 to purchase the stock, but you didn't know what options were available. If we were still talking about the cows from before, you would not be able to purchase even one cow for the money (remember that they are about $2,000 each without the options contract), and so you would completely miss out on the possibility to make a profit.

But, if you decided to purchase with an options contract, rather than purchasing the underlying asset outright, the dynamics have completely changed. This could result in an investment of just $250 to get started. The premium on the options contract is a fraction of the total cost, allowing you to get in on the trade for a lot less money. If you look into options contracts, you will be able to make more purchases, and potentially more money, compared to some of the other stock choices you can make.

EXERCISE AND EXPIRATION

When there's a lot of time left for the options contract to expire, chances are high that the price of the underlying asset will undergo significant changes. Thus, the premium will be high. On the other hand, as the expiration approaches, the chances of significant change in the price of underlying assets tend to diminish, thus lowering the premium. The date of expiration causes options to have a definitive nature. Thus, if the price of an option seems unbearable, you might consider waiting for the period to expiration to thin out.

DELIVERY AND SETTLEMENT

every contract for options will have a strike price associated with it. This is the fixed reference price against which settlement takes place at the time the option is exercised or when the option expires. Of any of the given index or stock that is traded, there are going to be various options contracts that correspond with various strike prices. These prices are determined ahead of time by the stock exchange where the stock is traded.

ANALYSIS OF COSTS AND BENEFITS IN THE OPTIONS

The leveraging power of options is great. Thus, a trader may acquire an option position similar to a stock position, but at a significantly lower price. With options trading, it is possible to make great profits without necessarily having large amounts of money. Individuals that operate on a tight budget have found options trading very accommodating. A shrewd trader can employ leverage to increase their trading power without necessarily injecting more capital.

Let's suppose that you had $1000 and wanted to invest in a company whose stock was trading at $20 per share. On the one hand, you could elect to buy the company's stocks and thus acquire 50 shares. If the stock price increases to $25, you would make $5 profit for every share you own, and your total profit would be $250. This is a 25% return on investment! On the other hand, you could purchase call options on the same stock and gain the right to purchase it. Assuming that the call options with a $20 strike price were trading at $2, you could purchase 500 options, which would enable you to purchase 500 shares. Assuming that the stock price increased to $25, you could exercise your option to purchase 500 shares and, upon selling your shares, you'd make a grand total of $2500. This is a staggering 150% return on investment! The greatest appeal of options trading is that it enables traders to execute cost efficient trades even as it widens their earning capacity.

RISKS LEVERAGE

We rarely talk about how we can troubleshoot arising problems, or even reduce the degree of financial risks we must take in the first place. Though by no means extensive, I've included a short (but hopefully helpful) preview of the ways in which we can work on doing this with the first 48 hours of trading.

.Trade with this approach in mind: focus your attention and effort toward avoiding risks, rather than securing potential rewards. If you're not convinced, think about this little statistic recorded from a 2013 U.S Trust survey: 60% of millionaire investors place more emphasis on avoiding unnecessary risks than securing potential capital gain.

.Diversify your account. This is essentially just a fancy word for "split up your money to make it safer." When you don't put all of your eggs in one basket, so to speak, you significantly (and technically eliminate) the risk of losing all of your money when one investment opportunity cracks or crumbles.

.Keep a broker or brokerage close by. Beginner traders can benefit greatly from having a highly-trained, experienced financial expert or professional just a phone call or drive away. When trades don't go your way, or you're simply not deriving the benefits you expected from trades, even within that initial 48 hour timeframe, a broker can assist and advise you on how to produce better results and generate more meaningful profit. Or, they can attempt to remedy current, negative financial situations or trades.

TRADING RULES YOU SHOULD KNOW

The most common form of underlying assets that the majority of options contracts are based on are the shares of a publicly listed company. But an underlying asset can take other varied forms, such as the following.

- **Index options:** These have a close similarity to stock options, except that the index, not the shares, is what the options are based on.
- **Forex/Currency options:** The contracts of this nature give the owner the authority to purchase or sell off a certain currency at an agreed rate of exchange.
- **Futures options:** The specified futures contract is the underlying security. A futures option allows the owner to enter into a specific futures contract.
- **Basket options:** The underlying asset can comprise a set of securities, such as currencies, stocks, commodities, and other financial securities.

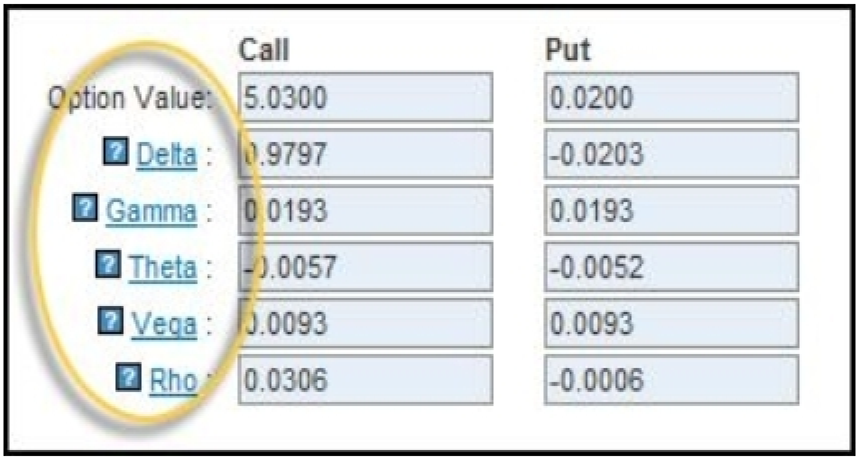
- **Commodity options:** For this kind of contract, the underlying asset can be a commodity that is physical or based on futures contract.

CHAPTER 10: RISKS IN OPTIONS TRADING

When it comes to options trading, the various types of risk that come into play are referred to as one of the **Greeks.** Each variable is then given a different name and there are different ways to go about ensuring that each has as little of an effect on your trades as possible. Trading without first taking the time to clearly understand each of the Greeks and what they mean would be like driving in a foreign country where you were unfamiliar with the basic rules of the road or even the language the signs are written in.

When you look at placing a put or call on a specific underlying stock, or building your general options trading strategy, it is important to always consider the rewards and risks from three primary areas. The amount of price change, the amount of volatility change and the relevant amount of time value the option has left. For holders of calls, this risk can further be identified as either price moving in the wrong direction, a decrease in volatility or there not being enough useful time left on the option in question. On the contrary, sellers face the risk of prices moving in the wrong direction and an increase in volatility but never when it comes to the time value.

When options are combined or traded, you will then want to determine the Greeks related to new result, often referred to as the **net Greeks.** This will allow you to determine the new difference between risk and reward and act appropriately. Understanding the various Greeks and what they mean will also allow you to tailor your strategy based on your own aversion to risk. Consider them as starter guideposts to ensure you are on the right track when it comes to seeking out the right options for you. There are numerous Greeks to consider and each is outlined in detail below:



	Call	Put
Option Value:	5.0300	0.0200
Delta :	0.9797	-0.0203
Gamma :	0.0193	0.0193
Theta :	-0.0057	-0.0052
Vega :	0.0093	0.0093
Rho :	0.0306	-0.0006

Beta: Beta, β, is actually a characteristic of the underlying stock and measures the historical volatility of that stock. It gives equal weight to volatility on the upside as well as on the downside. When you are evaluating a stock, you can get a sense of how variable the stock's price is by looking at the β. A stable stock that moves with the market will have a beta value of about 1. If beta is less than 1, it tends to lag the market, that is a $1 movement in the market a stock with a beta less than 1 means it will increase or decrease less than $1. Conversely, a stock with a beta greater than 1 means the stock price will move more than the market, up or down. Stocks with low betas are more stable than those with a higher beta. Examples of low beta are utilities. Stocks with a high beta include industries like biotechnology.

Delta

Delta, δ, measures the change in price of an option in response to a change in price of the underlying stock. When it comes to individual options, Delta can be seen as the amount of risk that currently exists that the price of the underlying stock is going to move. If the strike price of an option is the same as the current price of the underlying stock, then that stock can be said to have a Delta of .5. This can further be interpreted as meaning that if the underlying stock moves 1 point, the price of the option will shift .5 points assuming everything else remains the same. The total range Delta can possibly be anywhere from -1 to 1. Puts can be anywhere from -1 to 0 and calls can be anywhere from 0 to 1.

Delta is likely the first measurement of risk that you will always want to consider when it comes to choosing the options that are right for you. It becomes beneficial when you want to buy a put option as you want it to be far enough from the current price to make a profit but not so far as to be unreasonable. In this instance, it is beneficial to know the expected results of paying less in exchange for knowing the Delta is going to be lower as well. This difference can be seen by simply looking at the strike price and watching how it changes in relation to the put price.

As a general rule, the less an option costs, the smaller its Delta is going to be. Delta is often linked to the odds that the option will be worth a profit by the time it expires. For example, if you are looking at an option with a Delta of .52, then you can generally assume, all other things being equal, that the option is slightly more likely than 50%to end favorably.

Vega

When a position is taken, the risk of change that comes from the volatility of the underlying stock is referred to as the Vega. The level of volatility that an underlying stock has can change even if the price of the stock in question doesn't change; and regardless of the amount it changes, can affect the possibility of profits significantly. The option price is related to the underlying stock price, but the option price is also variable. Vega is a measure of that volatility, but it is implied volatility, not historical volatility as is beta. Vega is the only Greek trading term without a Greek letter symbol. Successful strategies can be built around both low volatility and high volatility as well as neutral volatility in some cases. **Long volatility** options are those that increase in value as their amount of volatility goes up and **short volatility** is when value increases as volatility decreases. Strategies or trades that utilize long volatility are said to have a positive Vega and those that use short volatility are said to have a negative Vega. Options that have a neutral level of volatility can be said to have a neutral Vega as well.

As a general rule, the more time standing between an option and its expiration date, the higher that option's Vega is going to be. This is because time value is proportional to volatility as the longer the timeline, the greater the chance of volatility eventually happening will be. For example, if a certain \$4 option's underlying stock is currently trading around \$90 with a

Vega of .1 and a volatility of 20%. If the volatility increases just 1% that would be seen by an increase of 10 cents to a total of $4.10. If the volatility had instead decreased, the price of the $4 option would have decreased by 10 cents instead, leaving a total of $3.90. The amount of change that is seen in an option with a shorter period is often going to result in larger changes because there is ultimately less time the option will restabilize.

Theta

Theta: Theta, θ, measures how much value the option will lose every day until expiration. Theta measures the rate at which the time the option has left is disappearing or decaying. This number is frequently going to be negative for your purposes. The moment you purchase an option, your Theta on that option begins decreasing which means the total value of the option begins to decrease as well because options are considered more valuable the longer the period of time they insure against new risk. The loss is due primarily from the time value of money. As a wasting asset, an option's value will decline because of the concept behind time value. A dollar today is worth more than a dollar next week. This time decay is difficult to calculate and most economic models are complex and often not particularly accurate. If the amount of Delta on an option exceeds the Theta, then the option is considered profitable for the holder. If Theta instead exceeds the Delta, the profits go to the writer.

For example, if an option has a Theta of 0.015 then it is going to be worth 1.5 cents less tomorrow than it is right now. Puts have negative thetas and calls have positive thetas. This is because puts are worth the least when they are about to expire and calls are worth the most because the difference between the starting and ending amounts is going to be at its highest. Additionally, Theta fluctuates day to day as it starts off slow and then builds in intensity the closer the option gets to its ultimate expiration. This explains why long term options attract buyers and short term options are preferred by sellers.

If you are planning a trade that has the market remaining neutral then it is important to take Theta into account, but otherwise, it is less likely to play into your strategy. Regardless, aim to purchase an option with the lowest Theta rate as possible.

Gamma

Gamma, γ, measures the rate of change in the underlying stock, not the change itself. Gamma expresses how fast the option responds to changes in Delta. Gamma is expressed as a positive or negative number. A positive gamma indicates that changes in Delta will be correlated with positive movements in the underlying stock. A negative gamma has the opposite indication.

If Delta can be thought of as the amount of change that the option will experience when the underlying stock changes, then Gamma can be thought of as the measurement of how the Delta is likely going to change over time. Gamma increases as options near the point where the price of the option and the price of the underlying stock intersect and decreases the further below the strike price the price of the underlying stock drops. Larger Gammas are risky, but they also offer higher returns on average. Gamma is also likely to increase as a specific option nears its ultimate expiration date. This can be taken a step further with the Gamma of the Gamma which considers the rate the Delta changes at.

For example, if a stock is trading at about $50 and a related option is currently going for $2. If it has a delta of .4 as well as a gamma of .1, then, if the stock increase by $1 then the delta will see an increase of 10 percent which is also the gamma amount. If volatility is low, then gamma is high when the option in question is above its strike price and low when it is below it. Gamma tends to stabilize when volatility is high and decrease when it is low.

Rho

Rho is the name for the risk relating to if the interest rates related to the option in question are going to change before its expiration. When it comes to choosing the system that is right for you Rho will be unlikely to factor into the equation in most instances. As interest rates increase, call prices will do the same while the price of puts will decrease and the reverse is true when interest rates decrease. Rho values are typically at their peak when the price of the underlying stock cross the price of the option in question. Likewise, this value is always going to be negative when it comes to puts and positive when it comes to calls. Rho values are more important when it comes to long options and virtually irrelevant for most short options.

Find the Greeks

When it comes to determining Greeks, note that most strategies will have either a negative or a positive value. For example, a positive Vega position will see gains when volatility rises and a negative Delta position will see a decrease when the underlying stock decreases. Keeping an eye on the Greeks and noting how they change is key to options trading success in both the short and the long term.

When it comes to finding the Greeks for any option, the first thing you will want to keep in mind is that the results you get are always going to be theoretical, no matter how good they end up looking. They are simply projections based on a mathematical formula with various variables plugged in when needed. These include the bid you are putting on the option, the asking price, the last price, the volume and occasionally the interest. This information should then be plugged into the Greek calculator that your platform includes

PITFALLS TO AVOID

Buying out of the money call options

Most options traders adhere to the strategy of buying low and selling high. However, when you buy out of the money calls, you hurt your chances of making a profit, and when the losing streak becomes prolonged, it could render your trading strategy unproductive. Those highly susceptible to this mistake are the traders who operate on a small budget.

Giving in to fear and greed

Options trading requires a trader to be very forward-thinking and in charge of their emotions. But traders don’t always exercise their emotional intelligence. For instance, when a trade is winning, an investor might get greedy and resist closing their position, simply because they want to allow the trade more time to go even further up. Greed can also manifest when an options trader is adamant despite the fact that they are losing consistently. When losses become your constant companion, it's time to pull out and reevaluate your strategies. If you're executing appropriate trading strategies, there's no reason you should struggle to make a profit. Traders who are driven by fear tend to overreact to every small thing that goes wrong. For instance, they bail out at the first sign of incurring a loss.

Doing poor allocation

Never commit more than 5% of your portfolio to one options trade. In as much as options have leverage and high earning potential, you cannot ignore the high level of risk exposure. Thus, you have to allocate prudently.

Having a finite approach

Options are flexible and can work with almost any securities market. But a single trading strategy doesn't achieve the same results across all securities markets. If an underlying asset is hardly moving, an out of the money call or put option is likely to expire worthlessly. However, taking covered options can be profitable in this scenario. Iron Condor, a trading strategy that involves taking many positions, would generate a profit in the event that the underlying moves slowly.

Not having an exit plan

Before you start trading, you should fully understand what you're trying to get into. How much money do you intend to make? What are your risk-reduction measures? Once you have answered the critical questions, you will be in a position to make appropriate strategies and learn how to exit with the least possible scars when you're losing money.

Being oblivious to market moving events

Let's say you create an options trade based on a stagnant market. You make a profit even though the underlying market barely moves. In case of volatility, your strategy would be thrown into jeopardy. Thus, you have to stay abreast of what is happening in the market in order to spot investment opportunities. An options trader who stays complacent will never realize their full earning potential.

Ignoring consistent profits in favor of home runs

Options traders tend to forgo the chance of making small yet consistent amounts of profits and focus their energies on nailing the elusive home run. If you have a trading strategy that seems to net you small but consistent earnings, you should stick to that. Thanks to the power of compounding effect, the earnings will add up to an impressive amount over time (Mitchell, 2014).

Buying naked options without hedging

Naked options describe a situation where the writer doesn't own the underlying assets. When a trader takes this approach, they should have the sense to at least hedge. Naked options expose the writer to unlimited loss.

Trying to time legged trades

Options traders often take multiple options positions in the same instance. Several transactions are required for such trades, and they should all take place at the same time to achieve the desired positioning. Some traders will attempt to make the transactions separately, trying to increase their earnings by getting an option on the uptick and another on the downtick. If you miss the window to establish the position, you expose yourself to unlimited loss. When you create a position that requires several options trades, take them all at once instead of cherry picking your entry points.

Having a strategy that doesn't match your outlook

An options trader is supposed to have an outlook of what they expect to happen. Technical analysis and fundamental analysis play a part in developing your outlook. Technical analysis promotes the interpretation of the market's volume and price on a chart, whereas fundamental analysis is mostly about reviewing a company's performance data. Thus, a trader must always take the trading strategy that marries their outlook.

Choosing an inappropriate date of expiration

The date of expiration affects the price of an option. But due to incompetence and carelessness, many traders select dates of expiration that hurt their chances of making profits. An option must accommodate the aspect of timeframe. It becomes easier to select the timeframe when you have developed an outlook. Before you select the date of expiration, it is prudent to first ask yourself the following questions:

- How long will it take for the trade to be carried out?
- Should I hold the event via an earnings announcement or a stock split?
- Do I have adequate liquidity to support my trade?

Not using **probability**

You have to take into account the probabilities of your strategy before you place your trade. When you use probability, it puts your outlook into perspective and gives a structure to the risk/reward hurdle.

Not having a trading plan

You have to be quite smart in order to become a successful options trader. Instead of basing your investment decisions on emotions, you should come up with sound trading plans. Your trading plan is what informs the actions you will take with your options contracts. When drafting a trading plan, here are some of the important questions that should be answered:

- How much can you risk in a single trade?
- What are the opportunities in the financial markets?
- When will you enter the trade?
- What is your strategy for exiting?

CONCLUSION

Thanks for making it through this book. I hope it was informative and able to provide you with all of the necessary tools to achieve your goals, whatever they may be.

The next step is to let all of the information sink into your mind. Try and absorb it and then see what applies specifically to you and your trading plans. If you are a novice or beginner, then you will appreciate the need to master the art of options trading. Remember to focus on perfecting your art and understanding how trades work. It is only later, once these concepts are internalized, that money will start flowing.

Remember to always keep it simple. Complex trading strategies and approaches may end up confusing you and eventually cost you money. Try and stick to simple strategies and approaches that you fully understand. Once you have mastered the basics, you are free to move on to the more complex strategies. If you follow the lessons in this book, you will definitely become a successful options trader.

DIVIDEND INVESTING

EASY INVESTMENT FOR BEGINNERS, HOW TO START CREATING PASSIVE INCOME IN STOCKS, DIVIDEND GROWTH MACHINE, YOUR WAY TO FINANCIAL FREEDOM AS INVESTOR

Tony Correra

INTRODUCTION

This is an age-old advice that depicts the irreplaceable benefits of having a passive income. Passive income is one of the ways to achieve your financial goals within a shorter time frame. It's a way of earning without spending much effort or energy. In other words, you earn money automatically. Yes, it's that awesome. Passive income removes you from the rat race and offers you more control over your time. Since time is money, it offers you control over finances. Once you have a passive income, you don't have to struggle to meet your monthly financial quota. However, earning a passive income is not an easy feat, as when you start, it requires enormous effort and careful decision making. Earning a passive income requires you to place your "eggs in the right basket," and there's no better niche to invest your income in than dividend investments.

Dividend investment involves earning dividends from your shares in a corporation. Although it's overlooked by many new investors, dividends investments are a sure-fire way of getting passive income. In fact, dividend investments account for a large percentage of stock returns. Mind you, dividend investing is not a get-rich-quick scheme. It requires the ability to understand the financial market and more importantly, to be extremely patient. So, get ready to explore the innumerable benefits and intricacies of dividends. In the following chapters, you will learn the golden rules, strategies and methods you need to excel in this field. Who knows - maybe you might become the next Warren Buffet!

Every day, you come across internet ads and brokers promising to make you a "super" investor. You must come across a few of these adverts every week. It's a pity that many jump on this bandwagon of investment without learning how to properly navigate the world of stocks. The word, "investor" has been bandied around so many times that it has lost its value. It is, therefore not a surprise to see some lose their life fortune all in the name of investment. Investing your money allows you to build wealth. More so, it involves putting your money in areas that have the potential to create huge returns. You really deserve to accomplish your dreams. However, if you are still undecided about investing or not, here are a few reasons to get you on board.

Why You Need To Invest

Here's another question for you: How would you feel on retirement day if your friend or work buddy was sitting on a million-dollar investment, and you weren't? Regret? Pain, Disappointment? These negative emotions will definitely crop up in the future unless you take the necessary steps against this.

Save For Retirement

The government retirement funds just aren't enough to meet your future needs. There is plenty of uncertainty surrounding the future, and it is wise to safeguard it. You can invest your retirement savings into investment portfolios, such as bonds, real estate, stocks, and precious metals. So, you can comfortably live off funds earned from investments when it's time to retire. Here's another angle to this: you can earn a continuous income every month or annually by investing your retirement savings in dividend stocks. You can also re-invest income from dividends into more stocks. Wait! Don't let me spill the beans just yet. I will explain all the principles of dividend investment in the next chapter.

Earn Higher Income

Well, this part is obvious. What's the essence of investing if you can't achieve your financial goals? However, this part is quite tricky as not all stocks are worth investing in. The stock market appreciation can remain stagnant for years. A typical example is the Dow Jones, which remained stagnant for 17 years. The Dow Jones is one of the oldest running US market index. This market index reached 995 in January 1966 and it did not surpass the 995-price level until December 1982. Now, imagine if you had invested in this index. This means your investment portfolio was stagnant for 17 years, with no appreciation at all. Therefore, always invest in stocks that will guarantee a continuous income despite the upheavals of the stock market.

Reduce Taxable Income

This is a win-win situation. First, you get to invest and at the same time, you reduce your taxable income. By putting part of your pre-tax income into an investment plan, you will save more money. In addition to this, if you incur a loss from an investment, you may apply that loss against any profit from other investments, and this lowers the amount of your taxable income.

Help Businesses to Grow

No matter how small you invest, your money can make a huge impact on an ailing business. Investing is about more than just gaining profit, it involves backing new ventures with the potential of creating cutting-edge products. Ultimately, you are building a future for yourself and the businesses you invest in.

How Much Money Should You Invest?

How much should I save and put into my investment portfolio? This question has always been on the lips of new investors. Although it's a straightforward question, its answer has always eluded many. Since there's no clear-cut rule on how much you need to invest, most investors often save or invest lower and this can affect their long-term financial goals. Before we proceed, it is important to know the difference between savings and investments.

Difference between Savings and Investments

Fact is, many investors don't know that savings and investments are two completely different entities, that play different roles, and have different functions. So, before you set out on the journey to building wealth through passive income, you need to understand these concepts.

Savings is the process of storing cold hard cash in an extremely safe yet liquid account. Liquid, in this context, means that it’s stored in a place that allows you to easily access your cash within a short time frame. These include savings accounts supported by the FDIC, checking accounts, and treasury bills. Some savings accounts come with interest rates, but these are usually too small to create a passive income. Many investors including those who lived through the Great Depression recommend keeping a store of cold hard cash in case of a meltdown or market crash.

Investments, on the other hand, is the process of using your capital to procure an asset that you think has a good chance of generating an acceptable income during the course of your investment. You are reading this book to learn how to invest due to the promise of a continuous source of income. You should know that there are many factors that threaten your investment, and a single mistake can wipe out part of your investment portfolio, or even worse, wipe it out in its entirety.

Before you embark on a journey of becoming a super investor, it is necessary to save. Think of savings as a foundation upon which you build your financial structures. You should know that your savings are what provide you with the capital for your investments. Those who don't save are likely to sell off their investments in hard times, and this is not a recipe for getting rich. Therefore, as a general rule, you ought to save an amount that's sufficient to cover all your personal expenses, including your mortgage and utility bills for a span of six months.

Questions to Help You Determine How Much You Want To Invest

First, start by asking yourself these questions, which will help you to arrive at your answer.

How much passive income do I want to earn from my investments? Perhaps you want enough passive income to buy a new house or pay off your mortgage. While trying to arrive at your desired figure, take into account the price of the things you want and the cost of upkeep.

How much tolerance do I have?

In other words, how high is your risk tolerance? Can you tolerate watching your investment value move wildly up and down? The quicker you want to reach your target financial goals, the bigger the fluctuation in your investment value. Sometimes, you may have to watch your accounts go up by 50 percent or go down by 70 percent.

When Do I Need To Access The Money?

This question is vital, especially when you are using tax-deferred accounts like 401[k] or Roth IRA. You can invite heavy penalties and taxes if you withdraw your money from these accounts before the age of 59.

Furthermore, you need to calculate the number of years you want to build up your portfolio for in order to increase the compound interest rates.

Adopting the Traits of Super Investors

Successful investors have certain traits in common, irrespective of their investment portfolios. Whether you earn a tidy sum every month from invest incomes and dividends, or you are a financial genius with a laudable portfolio of high investment returns, these traits will ensure that you stay afloat the uncertainties of the financial market. So, before you jump on to the notion of becoming an investor, you need to adopt certain traits to survive the financial market.

Acquire the right temperament

Yes, having the right temperament can make a lot of difference in the financial world. Mind you, this has nothing to do with discernment, intelligence or wisdom. It simply means developing the right attitude. For instance, patience is a strong trait you need to develop, as you should understand that some things take time. As I mentioned earlier, investing is not a get-rich-quick scheme. Your investment will not magically turn into a huge sum overnight. Heck, you will hardly see the result of your investment in the first few years.

In addition to exercising patience, learn to stay away from the crowd. Yes, you must be willing to stick to a plan while ignoring the will of the crowd. This brings to mind the 1990's dot.com bubble, when some of the world's best investors refused to be swayed by public opinion. These super investors recognized that bubbles don't last. So, you should know that not every stock or asset is worth investing in. Some investors stick to earning dividends, rents, and interest incomes in order to avoid the uncertainties of the stock market.

Lastly, don't get too emotional. In fact, you will hardly reach your financial goal if you are clouded by emotions. Learn to separate market fluctuations from the inherent value of your assets. For example, let's say you bought an apartment building that nets you $100,000 per year in passive income, and someone comes around and offers to buy the building for $200,000 – you would probably laugh in their face since you know the inherent value of the building.

Learn the ropes!

There's no shortcut or cheat to this method. It is vital for you to know how to calculate the intrinsic value of your assets, and this includes getting familiar with the terms, regulations and laws of investment. It doesn't matter if it's a government bond, a share of stock or a car wash business; you will be at a disadvantage if you don't know to pull out a calculator and punch in the figures yourself. Yes, the calculations involved look daunting or impossible. However, don't lose heart. All you have to do is to continually ask yourself this question - "how much do I have to pay for a dollar of net present earnings?" Your net present earning is the difference between the current value of your cash inflow and the current value of your outflows. By asking yourself this question over and over again, you will notice your thoughts becoming clearer. In fact, it will help you to sieve genuine and high returns from shady investments. Remember, it only takes a few good financial decisions to reach your desired target.

Understand the risks involved

You need to understand that the market won't be rosy all the time. The market isn't fallible. Heck! Stock prices went down when the New York Stock Exchange was shut down for 136 days during World War I. During this long hiatus, investors counting on capital appreciation from their stocks were disappointed. However, those with dividend stocks kept on receiving their paychecks. So, it is important to place your eggs in the right basket.

You should also keep track of trends and the financial history of the stock you are investing in. In fact, you need to have a firm grip on your financial history in order to build your net worth and manage your money. If you take a look at the Dutch Tulip bubble, the dot.com bubble, and the real estate bubble, you can see that there's isn't much difference between them. Therefore, by arming yourself with these turning points in history, you get to delve into the psychology that influences the selling and buying decisions of individuals. This will help you to avoid financial mistakes that will haunt you and your loved ones. Additionally, mental models are an important tool that you can use to avoid mistakes. In the following chapters, I will show you the strategies you can employ to succeed in investments.

Understand your investments

Do you know that stock funds are different from bond funds, and a stock index fund is not the same as a stock? Most people are generally unaware of the different terms and regulations of investing in the stock market. It is probably not a surprise that Warren Buffet, billionaire and investment guru, made it a rule to never invest in what he does not understand. In other words, it is risky to invest in a niche that's difficult to explain. It’s no surprise, then, that Buffet has steered clear of investing heavily in the tech industry. Books are also an excellent way to get information on the stocks you are interested in. Yes, I love the internet and its array of free information; however, nothing beats a good book when you want in-depth knowledge on a particular subject.

CHAPTER 1: OVERVIEW OF DIVIDEND INVESTING

Picture yourself relaxing on a beach, in front of your big screen TV or even in your backyard with a brand new hammock. You don't have to worry about waking up early on Monday morning to head back into the rat race of the workweek, and you certainly don't have to worry about a boss breathing down your neck at every opportunity he or she gets. This is what passive income looks like, and it is something that you can have too if you know how to do dividend investing the right way.

What is Passive Income?

In its purest form, passive income is the ability to make money without having to actively do anything. It is passive because it is income that you are able to obtain without having to do anything other than set up the initial framework for the income. It is easy to obtain and even easier to have when you are in different situations. Passive income is the best kind of income because all you need to do is some initial work and you will be able to reap the benefits for years to come.

When you make the decision to enjoy passive income, you will still need to do some work in the beginning. This can be anything from setting up an investment account to working and making sure that you are going to get paid on a regular basis. In the case of dividend investing, you will need to make the initial investment.

The amount that you invest depends on what you can afford and what you want to get out of dividend investing. If you want to set up the framework for passive income for years to come, you'll need to do a little more work.

How Does Dividend Investing Give Me That?

Dividend investing is investing in a longstanding company that has a lot of surplus with their profits. It is not as simple as that, though. If that sounds like another name for a small number, it’s not. Companies that make billions of dollars in profits each year end up paying their investors millions when it comes to dividend investing.

The way that it works is that you would invest a certain amount of money – any amount that you choose – into a business and the business would pay you periodically for the portion of the business. It is different than shares because you do not own a portion of the company, you just get paid a small amount out of what they make.

Companies do this for one main reason: to attract even more investors. The more money they have invested in the company, the more that they are able to do with the company. It is a win-win situation for the company because they are then able to give that money back to the investors who, often, invest more of their money into the business.

It is one of the most profitable options for people who want to invest their money.

But, is It Lucrative?

This is most definitely a lucrative way to make money. It does take some work, and you will need to have a relatively high investment, in the beginning, to make sure that you are getting the most out of the return, but you will not need to worry about the problems that come along with managing an investment. It is more of a “set and forget” type of investment and something that you can forget about when you are waiting to get the return.

As long as you have your preferences selected for the money to go into your bank account, the company will automatically put it there when they go through each period to make sure that they are giving their investors the money back that they wanted. It is a great opportunity for people who want to be able to invest but who simply don’t have the time to invest.

One thing that is worth mentioning, though, is that it can take some time to really start seeing great returns. It will likely take, at least, a year to see a good return on the investment but once the company starts paying out to their investors, they will always be able to do that amount and more. You can be prepared to see your dividend payments rise regularly.

Ok, Sign Me Up!

It’s not that simple! There are several things that you need to do before you can sign up or invest in a dividend investment. You will first need to learn as much about them as possible while figuring out the right way to be able to do different things with your investment. You will then need to take that information that you have learned and find a company to invest in.

Once you have found that company, you need to gather your capital to make your investment. This is, perhaps, the hardest part of the whole process because you want to have as much money as possible to put into the business so that you can get an even greater return on the business. Making sure that you have the right amount of money can be the difference between losing it all and truly succeeding with the purchase.

When you make sure that you are able to do more with the dividend investment opportunity, you are giving yourself a chance to see the way that your portfolio can grow and can become better.

Whether you are a brand-new investor or someone who has been investing for years, you can benefit from having a dividend investment in your portfolio. Read on for the best dividend investment tips and to truly become an expert.

CHAPTER 2: WHAT IS DIVIDEND INVESTING

Dividend investing is seen as one of the strategy that has become a savior in this economic environment by providing dividends through rain or shine. Power of dividends coupled with the compounding effect can produce hefty gains without taking too much risk and Ponzi schemes.

Many studies have found the effectiveness of dividends investing over a period of time. In fact, dividend investing could potentially empower you with rule of 36, rather than rule of 72, where investments could double in half time, if properly applied.

In case of dividend portfolio, asset allocation and diversification using a right mix of stocks/ETFs/Funds is paramount. As with any portfolio, there will be some risk elements, but the goal is to minimize them. With high rewards, come higher risks and therefore, goal is to achieve decent returns with less risk using dividend investing. Diversification of assets significantly determines the outcome of the portfolio success, not the timing of the market according to various pundits.

There are companies that pay consistently increasing dividends are usually considered financially balanced, generating a dependable return on investment on the distinct dividends. Stable companies generally feature any slipping stock prices to generate it less alarming to the shareholders in the overall market. Because of this, they can be considered less of a risk compared to the companies that don't sell out those dividends as well as, in turn, see more sharp good and bad in the value.

With a lower risk to the investors of these kinds of dividend stocks, they might be a more beautiful option for various investors – the actual young bucks who're hoping to obtain more income over the long term and for those who are looking to produce their retirement pay for. There are even those already in retirement who use money from dividend investing to supply a regular earnings while they aren't doing the work.

Another reason the particular dividend stocks get built confidence among dividend investors will be the correlation between the actual share prices and also the yield of gains through the dividends. When one rises, the different flows. There’s also the consideration to the power of compounding the investments – having the generated cash flow and putting them on the stocks which will continue to build an increasing number of.

In other text, the money you have generated from your earnings will generate additional earnings and also the generations of producing earnings will carry on and follow as an investor continues to reinvest for time. This process may hypothetically turn one penny right into a very large sum of cash after about every thirty days.

If you take that particular penny and carry on and double your account each day for 30 days and nights, you could see your hard earned money grow from a number of cents to a couple dollars. Ten US dollars becomes $20, which often becomes $40, then $80, $160, $320, $640, nearly thousands and gradually millions. Sure, there are many things who have to happen, plus it requires a minor luck. But theoretically, it can happen – regardless of whether it’s a tad unrealistic.

This isn’t expressing that any investor can get to see their particular money grow when realize use dividend trading. But it shows that money can, as well as likely will, grow in a process that Albert Einstein when called the eighth wonder from the world.

Many who enter the entire world of dividend investing might find the eventual rise of their rate of return because they continue to reinvest your money that comes of their returns to purchase.

Let’s say you have 100 shares of a stock that offer at $50 every share – an investment around $5, 000. During that first year, the organization offers a 3. 5 percent dividend, to provide an income involving $125.

If the investor continues to see dividend growths involving 5 percent annually, that's a $5, 000 initial investment will be valued at just greater than $11, 200 after about two decades. This is while using the assumption that there will be no change in the stock price and there exists the reinvestment mentioned earlier.

Now let’s get that same organization pay a quarterly dividend as opposed to one that pays annually. That's $5, 000 investment can grow to a tad bit more than $11, 650 with the same two decades to get a gain of about 133 percent. With the process of compounding, a $50, 000 investment can become an $116, 500 sum after that same stretch of time during which you will find reinvestments into the actual dividend folder.

CHAPTER 3: WHY YOU SHOULD INVEST IN DIVIDEND STOCKS

In order for you to fully understand the kind of stocks you should be looking into and to make the best choice for your portfolio, it is quite important that you are familiar with the main types of dividend stocks.

In essence, they are all very similar - but they show significant differences you should be well aware of before buying any shares.

There are three main categories of dividend stocks: ADRs, MLPs, and REITs. Following, we will get into a more in-depth explanation of each and why you should (or shouldn't) invest in it.

ADRs

ADRs, short for American Depository Receipts, are an increasingly popular dividend investment option, as a lot of investors are focusing on foreign equity markets.

American Depository Receipts are a form of investment that allows investors to add foreign equity markets to their portfolios without investing in international mutual funds or buying foreign stock on foreign markets. Put simply, an ADR is a share you buy in a foreign company by using an American stock exchange (Nasdaq, the New York Stock Exchange, etc.). These stocks come in the form of negotiable certificates that are issued by a U.S. bank, representing the shares you purchase in your chosen foreign company.

One of the most common examples of foreign companies that allow you to purchase stock in their business includes Unilever, based in London, UK. This company has a very high trading volume of ADRs (one of the highest ever recorded, actually).

ADRs tend to rise in popularity in a time of political and economic uncertainty, precisely because they protect investor portfolios from the uncertainty of what is happening on American grounds.

The structure of an ADR is quite unique because U.S.-listed companies are usually backed by external company shares, which are held in trust by an American bank. The ADR shares in a company may have a 1:1 ratio (such as in the case of Unilever, for example), but this is rather rare (as Unilever is one of the companies with a high number of ADRs in their structure).

When dividend payments are issued by a foreign company with ADR shares in their structure, the U.S. bank holding these funds will collect these dividends in that country's currency, and then convert them into U.S. dollars. This means that you will not actually what your dividend payment is until you receive it, due to different currency fluctuations.

Moreover, you should know that these dividends are subjected to taxes withheld before the payment is actually processed. In most of these cases, however, you can claim a tax credit if your ADR shares are connected to a taxable account.

There are multiple advantages to holding ADR stocks in your portfolio. Some of the most important ones include:

- The fact that you can diversify your portfolio into foreign stock. This will help you create a well-rounded portfolio that poses as little risk as possible.
- You can make investments in U.S. dollars, rather than foreign currency (which would make you lose money on the currency exchange rate fluctuations not only when receiving the payments, but also when buying the stock itself).
- ADR shares are one of the single most convenient ways to invest in foreign stock and diversify your portfolio outside of the country. While it may not be the only foreign investment solution, it is by far one of the easiest to handle.
- When favorable currency fluctuations happen, you can capitalize on this as an investor, maximizing your stock's profitability

MLPs

MLP is short for Master Limited Partnership, and this type of investment has grown in popularity since the financial crisis of 2008. The reason they have become more popular for investors is because this type of dividend investing can yield attractive profits while being associated with a series of tax benefits.

Since the times of very low-interest rates are slowly coming to an end, and the economy has jumped back from the crisis it met in 2008, investors should now run a thorough comparison on whether MLPs make a better choice than traditional dividend stocks.

In very simple terms, MLPs are businesses that exist as publicly traded limited partnerships. Therefore, they have the tax advantages of a partnership and the advantageous liquidity of a public enterprise. This means that as an investor, you will be taxed only when the profits of the company are distributed.

There are two main types of MLP partners: limited partner investors (who usually buy shares in the company and then provide capital for the operations of the company) and general partner owners (who are also responsible with the management of the daily operations of the company).

It can be fairly said that MLPS are quite different than any kind of traditional dividends - but even so, when it comes to their profitability, they are closer to this category than any other.

MLPs are usually related to the energy industry, and they are traded on national exchanges. The reason these types of investments are focused on this very specific sector of the economy is because they were originally mandated to help energy companies manage the natural resources (this happened in the 1980s).

One of the defining differences between MLPs and traditional dividend stocks is consisted of the fact that the first is usually operated as pass-through entities. This means that they pass on cash and they do not have to pay corporate taxes. In most cases, this also means that an MLP will not retain a high percentage of their earnings to reinvest in the business.

MLPs have a structure that allows these partnership companies to raise capital from investors who qualify. Therefore, most of the cash flow of an MLP is used for the payouts. In the case of a dividend stock in the traditional sense of the term, this is not the case because payouts are to be determined by a company’s dividend per share ratio.

Furthermore, participation in a traditional dividend paying company is a lot more limited than in the case of an MLP. At the same time, dividend-paying companies pertain to a wider range of sectors and industries than

MLPs which, as mentioned above, are usually connected to the energy sector.

Do note that even though an MLP is a pass-through entity, the dividend earnings are still taxed as any other type of ordinary income (at a lower rate than normally most of the times, but they are not completely exempt of income tax).

REITs

In a nutshell, a REIT (Real Estate Investment Trust) is a type of security that behaves like normal stock in terms of trading but is mainly focused on the real estate market.

The vast majority of the REITs are centered on property ownership and rentals, but some are also connected to financing properties and mortgages. These real estate investment trusts were born in 1960 when Congress decided to offer small and large investors the chance to reap the benefits of the real estate profits. There are several regulations REITs must abide by (such as a minimum of 100 shareholders and having at least 75% of their assets and income active in the real estate industry).

The companies issuing a REIT are active (for the most part) in the real estate industry, acting as property owners and landlords. REITs do not have an income tax obligation at the corporate level, which makes this form of legal organization advantageous for its owners.

In the case of a REIT, the tax obligation is passed to the individual investors - but in return, the company will pay them at least 90% of the earnings as dividends. This means that this type of investment can result in a very high yield.

Since REIT dividends are not qualified for the capital gains rate of 15%, they are taxed as usual, as per the investor’s normal income tax rate.

If you decide to invest in REITs, you should do it via major brokers, just as you would do with any other type of stock.

CHAPTER 4: FINDING A BROKER AND IMPLEMENTING YOUR INVESTMENT PLANS

If you are interested in investing in dividend-paying stocks, you have to take the step of acquiring them. Individual stocks can be obtained just the same way that other stocks are bought. That is through a broker and maybe directly from the company itself. Investors using brokers need to partner with the best brokers that can recommend the best stocks in the market, and this, together with your research findings, can help you make the best choice of stocks to invest in.

Investors need to know that individual stock is not the only option available, nor is it the best one to take for those that want to invest in dividend-paying stocks. Some investors invest through a mutual fund, and this helps them in so many ways, such as being able to diversify their portfolio by enabling them to spread their investment across a number of different potential stocks. The other advantage you get from this is that you are able to keep the broker fee to a minimum level.

Buying and Managing Your Dividend Portfolio

Investing in just one kind of stock is not a good idea. Investors are encouraged to spread the risk in other stocks and this is where building and managing your portfolio begin. There are so many approaches one can take to have their personal stock portfolio working and running. Many people will ask why this is important. A portfolio of dividend stocks is more than the number of stocks you have in total. It does a lot more. Every investor has a preference of how their portfolio should look depending on the kind of diversification one wants to achieve. What you need to know is that at the end of it all, your portfolio should help you build wealth in the long run. This means that your choice of stocks should always be the best.

Certain factors ought to be considered when one is building his stock dividend portfolio and these are the following:

1. Your goals—the most important thing you need to consider when you are investing in dividend stocks is what exactly you want to achieve. Do not assume that all portfolios offer the same thing. Yes, they offer a passive income, and they can build your wealth over the years, but you need to come up with your unique portfolio that is different from what other people are building: based on your goals in life. Below are things that will help you determine your choice:

· The kind of return you are looking for

· Your level of risk tolerance

· Your experience in investing

· The period of time you are looking forward to invest in dividend stocks

· The amount of time you have to learn more about stocks

2. The yield target—an average portfolio dividend yield will be the next major consideration after your goals. The average yield that you will go for should be good enough so that you will receive a good return of your investment every time dividends are being paid. If you are planning to use the dividend payments as your income for your personal needs, you will definitely consider higher yields. Conversely, if you want to enjoy a good return after many years of investing, you will worry more about dividend growth and probably a higher sum.

3. Stick to your core competencies—investors are expected to have a reasonably diversified portfolio, yet it is well known that you cannot be an expert in everything. There is that area that you know so much about, and this is the area a lot of investors are comfortable investing in. The problem is that if your stocks are in just one or at least two sectors, one unexpected turn in the market can affect your portfolio at once, and you will lose so much. That is why you need to diversify a little more. Come up with a few more sectors that you have an idea of what they are about. You can take time to understand something in other sectors, too, to ensure that you are at least investing in sectors that you are familiar with. If you are able to diversify in different sectors, you may never be highly affected even when there is an economic crisis, since it cannot affect all sectors at the same time.

4. Invest with social responsibility in mind—investors have the choice to determine the kinds of companies they will have in portfolios and those that are not allowed in there. Do not be the kind of investor who allows

anything in their portfolio as long as there is hope for some dividend by the end of the year. This is what investing with social responsibility in mind is all about. Everyone has their own principles in life, and these should be the guiding factors when you are investing. You need to set guidelines that companies should pass in order to fit into your portfolio. Doing this will certainly provide the peace of mind you need since you will know that the companies you have invested in are truly deserving.

5. Conduct thorough research—now that you have an idea of what you want to have in your portfolio, you can start constructing it. These days, investors have the advantage of the internet. Therefore, you can use it to acquire all the information you might need in order to determine the right stocks that will be included in your portfolio. Try Yahoo Finance, for instance, and you will find some of the most valuable companies in which you can invest. Some sites will even allow you to search through the best stocks in the market to come up with a much simpler list to choose from. Look out for sites that will help you to make stock selections with much ease. Take advantage of what the internet is offering to come up with a great portfolio that you will be happy with for a long time.

6. Start small and build your portfolio with time—when it comes to investing, you should not invest all your money at the same time. Now that you already know what companies to invest in, you need to do it wisely. Investors generally invest in two main ways—the clumsy way and the elegant way. To be a smart investor, I am sure you will go for the elegant way of investing. This entails starting with a small amount of money, then building your position gradually over time. Take advantage of averaging out your buying price over a given period of time as it comes with some benefits to the investor.

7. Expand the big potential—after starting small, you should be able to identify great potential after some time. Once you have realized that a certain investment is a good one, expand and commit to it. What you need in your portfolio are core investments which you can count on at whatever state of the market, cyclical investments and also the small investments. All great standing companies that have been in the market for a long time, those that pay their dividends well in a timely manner and are able to stay strong even during recession, should be your core investments. Cyclical companies are more like the core companies, but these ones are a little volatile. The

small companies are those that will require your full-time attention. You need to have just a few so that you will be able to closely monitor them.

Every day, you come across internet ads and brokers promising to make you a "super" investor. You must come across a few of these adverts every week. It's a pity that many jump on this bandwagon of investment without learning how to properly navigate the world of stocks. The word, "investor" has been bandied around so many times that it has lost its value. It is, therefore not a surprise to see some lose their life fortune all in the name of investment. Investing your money allows you to build wealth. More so, it involves putting your money in areas that have the potential to create huge returns. You really deserve to accomplish your dreams. However, if you are still undecided about investing or not, here are a few reasons to get you on board.

Why You Need To Invest

Here's another question for you: How would you feel on retirement day if your friend or work buddy was sitting on a million-dollar investment, and you weren't? Regret? Pain, Disappointment? These negative emotions will definitely crop up in the future unless you take the necessary steps against this.

Save For Retirement

The government retirement funds just aren't enough to meet your future needs. There is plenty of uncertainty surrounding the future, and it is wise to safeguard it. You can invest your retirement savings into investment portfolios, such as bonds, real estate, stocks, and precious metals. So, you can comfortably live off funds earned from investments when it's time to retire. Here's another angle to this: you can earn a continuous income every month or annually by investing your retirement savings in dividend stocks. You can also re-invest income from dividends into more stocks. Wait! Don't let me spill the beans just yet. I will explain all the principles of dividend investment in the next chapter.

Earn Higher Income

Well, this part is obvious. What's the essence of investing if you can't achieve your financial goals? However, this part is quite tricky as not all stocks are worth investing in. The stock market appreciation can remain stagnant for years. A typical example is the Dow Jones, which remained stagnant for 17 years. The Dow Jones is one of the oldest running US market index. This market index reached 995 in January 1966 and it did not surpass the 995-price level until December 1982. Now, imagine if you had invested in this index. This means your investment portfolio was stagnant for 17 years, with no appreciation at all. Therefore, always invest in stocks that will guarantee a continuous income despite the upheavals of the stock market.

Reduce Taxable Income

This is a win-win situation. First, you get to invest and at the same time, you reduce your taxable income. By putting part of your pre-tax income into an investment plan, you will save more money. In addition to this, if you incur a loss from an investment, you may apply that loss against any profit from other investments, and this lowers the amount of your taxable income.

Help Businesses to Grow

No matter how small you invest, your money can make a huge impact on an ailing business. Investing is about more than just gaining profit, it involves backing new ventures with the potential of creating cutting-edge products. Ultimately, you are building a future for yourself and the businesses you invest in.

How Much Money Should You Invest?

How much should I save and put into my investment portfolio? This question has always been on the lips of new investors. Although it's a straightforward question, its answer has always eluded many. Since there's no clear-cut rule on how much you need to invest, most investors often save or invest lower and this can affect their long-term financial goals. Before we proceed, it is important to know the difference between savings and investments.

Difference between Savings and Investments

Fact is, many investors don't know that savings and investments are two completely different entities, that play different roles, and have different functions. So, before you set out on the journey to building wealth through passive income, you need to understand these concepts.

Savings is the process of storing cold hard cash in an extremely safe yet liquid account. Liquid, in this context, means that it’s stored in a place that allows you to easily access your cash within a short time frame. These include savings accounts supported by the FDIC, checking accounts, and treasury bills. Some savings accounts come with interest rates, but these are usually too small to create a passive income. Many investors including those who lived through the Great Depression recommend keeping a store of cold hard cash in case of a meltdown or market crash.

Investments, on the other hand, is the process of using your capital to procure an asset that you think has a good chance of generating an acceptable income during the course of your investment. You are reading this book to learn how to invest due to the promise of a continuous source of income. You should know that there are many factors that threaten your investment, and a single mistake can wipe out part of your investment portfolio, or even worse, wipe it out in its entirety.

Before you embark on a journey of becoming a super investor, it is necessary to save. Think of savings as a foundation upon which you build your financial structures. You should know that your savings are what provide you with the capital for your investments. Those who don’t save are likely to sell off their investments in hard times, and this is not a recipe for getting rich. Therefore, as a general rule, you ought to save an amount that's sufficient to cover all your personal expenses, including your mortgage and utility bills for a span of six months.

CHAPTER 5: INCOME FROM DIVIDEND INVESTING

Now that you have learned how to make the best dividend investment in your entire portfolio, you will need to learn how to manage all of the wealth that you are going to have in the end. This may actually be the trickiest part of dividend investing and is often the part where everyone slips up and loses the money that they have made. It is best that you are prepared for your passive income and you are doing what you can to make sure that you are getting what you need out of it.

Save It

The easiest thing that you can do with the income that you get is to save it. It is a good idea to try to save around 50% of what you make from the passive income and this is easy to do, especially if you have not taken on investing full time. Save the money so that you will have it later on in case something happens or just for the sake of saving it. By doing this, you will give yourself a great start to a retirement, a vacation fund or something else that will make your life better.

It should be relatively easy to save the money that you have made with passive income. Since you don’t have to worry about the problems that come with a traditional job, you will not need to worry about making money. You can also save a much larger amount of money if you are using the investment as supplemental income. If you are using the investment as your main source of income, it may be more difficult to save 50%, but there is still a chance that you will be able to do it.

High Interest

The best way to save your money is to find a high-interest savings account. This can be from your bank, online or even on a CD that will make you more money. The best things about high-interest savings accounts are that they are yet another form of passive income. You don’t have to do anything other than put your money in the account and it will experience growth during that time. This is a great way to make even more money than what you already made on the investment.

The high-interest savings account will obviously not make you as much money as reinvesting it or even the initial investment, but it will help to keep it in your hands and grow a little bit more. The more money that you put into the account, the higher the interest will be because you will be able to make more money from what you were doing with it. It is a good idea to always find the highest rate possible and stick to it. You can always find out if the bank or institution where your money is at can raise the interest amount and in fact, some banks do that automatically if you keep your savings account open for a long time.

Spend It

If you have a plan to spend your dividend investment income, you will be less likely to spend it on things that you don't need. Set aside what you are going to spend out of the money that you make and ensure that you only spend that much. If you give yourself a set amount of money, you will be less likely to spend recklessly and make purchases that you may regret later on, after you have run out of the dividend payment.

It may seem counterintuitive, but you can even put aside money specifically that you can waste on things that you don't want. This is "blow" money that you can spend on anything – from new high heels to a gallon of ice cream at the grocery store. The money is yours to use in any way that you want and it will help you to budget it.

You will find that, the more money you make, the harder it is to budget. Keep a 10% rule for your "blow" money so that you can make sure you do not get out of hand with it and can keep it below your average spending amount. This will help to keep your spending in check.

Invest It

Investing the money that you have made from your initial investment is one of the easiest ways that you can grow the wealth that you have already made from dividend investing. The investment that you make does not need to be perfect, and it is something that you can feel good about. Any type of investment is better than nothing and putting your money back into investing is a great way to make even more money.

When you are going to reinvest the money that you have already made, there are two different ways that you can do it. You can make money and put it back into the investment that you already did, with the dividends. Or, you can choose to try something different in the investment world. By making sure that you know how to do each of these things, you will have plenty of options when it comes time to make more money from what you have already.

Try New Things

If you have money that you want to use and invest, but you do not want to do anymore dividend investing, you can always try to do a different type of investment. There are many different options that you can try out, but the majority of these will be profitable if you know how to put your money in the right place. Trying out an index fund or something similar will be an excellent way for you to make the most amount of money on top of what you have already made. You may also consider something like a REIT.

Switching it up and trying something different can change the portfolio that you have and give you the variety that you need to make sure that you are doing things the right way. It can be hard to guarantee that you get that variety, especially if you are focusing on dividend investments. However, investing some of the money back into something else is the easiest way for you to make sure that you are making the most money possible.

Your portfolio will thank you for the variety that you have added to it.

Put it Back In

Another option that you have when it comes to your investments is to put the money back into your dividend investment. You don’t need to put all of your money back into the investment that you have already made, but it is a good idea to choose the right way to be able to invest if you are working towards doing more with what you have to offer.

If you are going to invest money back into your dividend investment, you need to make sure that you do it the right way. Do not invest all of your money into the same venture. This is dangerous and could leave you with no income. If you are able to invest money, you should do around 50% of the money that you have made. This is a good number because it will leave you feeling that you have made a good choice with keeping the money, as well as putting it back into the investment. You can also make a lot more money from investing 50% as opposed to 15% or 25%.

CHAPTER 6: STRATEGIES OF DIVIDEND INVESTING

Dividend investing is not rocket science - it might feel confusing and downright anxiety-inducing when you first get into it, but it is still one of the easier investment methods to understand.

While these are not even by far the **only** rules of successful dividend investing, the fundamentals rely on analyzing the quality of the dividend-paying companies you invest in and in making sure that you have a long-term mindset in place when you start your investment journey into the world of dividends.

I will expand a little more on this on this chapter, to help you fully understand why these two laws of dividend investing are so crucial and why they should lie at the basis of every decision you will make from here on in terms of investments in dividends.

QUALITY

The quality of the company you want to buy stock in is extremely important because it will determine the actual quality of the stock itself (and thus, the profitability of the stock as well).

Not all stocks are created alike - some have higher yields, which makes them attractive for income investors, while others have lower yields but dividend potential, which makes them more appealing for value investors.

In general, a stock is considered to have a high dividend yield if it has a yield higher than that of the U.S. 10-Year Treasury (which was of 2.91% in 2018). [5]

However, just because a company's current dividend yield is higher than the aforementioned value, it does not necessarily mean that you should invest right away. To determine if a company is worth investing in for dividends, you should analyze whether or not their current yield is sustainable in the long run.

There are four ratios you should consider when running this analysis: the Dividend Payout Ratio, the Dividend Coverage Ratio, the Free Cash Flow to Equity Ratio, and the Net Debt to EBITDA Ratio. All of them will be discussed in more detail over the next chapter, where I will show you how to pick the best stocks for your dividend investing plan.

LONG-TERM THINKING

The Wolf of Wall Street is, undoubtedly, one of the best movies created around the world of investments, precisely because it manages to make stock shares **exciting**.

However, most of the real-life investment stories are far less glamorous than the story of Jordan Belfort (or his clients, for that matter). And dividend investing is as far from that as it can be.

Dividend investing is not where luxurious yachts and expensive watches lie - but it is where genuine realism and manageable expectations live.

If you are looking for a get-rich-quick-scheme, dividend investing is not where you should put your energy.

Dividend investing is for the long-term thinkers. For those of you want to celebrate retirement in peace, enjoying the finest of what life truly has to offer: the comfort of not worrying about money when you stop working, the ability to afford nice vacations and spoil your grandchildren every now and again.

It sounds a bit less glamorous than partying and living the luxury life - but it is a far more approachable dream, one every common person can actually attain.

When you start to get more in-depth with your know-how in the world of dividend investments, you will realize that the excitement comes in building portfolios that are bound to work, one way or another. The risks are there, same as with any other type of investment, but even so, dividend investing tends to be a far more secure way to multiply your money over the course of the years.

Yes, it might take decades for your dividend payments to actually amount to something considerable. But, while growth investment might be a lot about luck and striking more or less accidental gold, value investing is all about working with real data and predictions that don’t fail under normal market circumstances.

What does that mean?

It basically means that, if your chosen dividend-paying company (or companies) continue on the same path as until now, it is more than likely that you will live a comfortable life in retirement. Given that the most recommendable companies for dividend investing have been around for quite some time, the worst things that could happen are huge market crashes, or major changes in economy, politics, and society.

For instance, if you choose to invest in General Motors, things are pretty much predictable. If people continue to use cars in the next decades (which is very likely they **will** do), your chosen company will continue more or less on the same path as before. Consequently, you will most probably continue to see dividend payments from them.

Predictability is not frequently associated with excitement - but when predictability means that you can afford to dream of a nice, comfortable life, it can be absolutely exciting.

Putting all your money in growth investments to sell the stock when prices rise sounds like the best idea for those of you who want to amass a fortune in a quick amount of time. However, if you remember the old story with the hare and the tortoise, you will also remember that **slow and steady wins the race**.

Of course, you should definitely diversify your portfolio as much as possible - but a long-term approach will help you make better choices not just for value investing, but also for growth options, precisely because it will help you temper down any impulsive, high-risk decisions.

Yes, dividend investing is worth it for a lot of reasons - and your own future is one of the single most important ones.

The next chapters are all about making the best choices for a financially healthy, steady future. A future that will not be turned upside down by the passing of a CEO or by the sudden apparition of a brand-new technology that disrupts the latest Silicon Valley Unicorn.

A future you can rely on.

CHAPTER 7: A SHORTCUT FOR PICKING DIVIDEND STOCKS

In order for dividend investing to work, you first need to make sure you select the best stocks, and that you do it at the best moment.

There is no secret recipe to picking successful dividend-paying stocks, but there are a few things that will make the process easier and more reliable, leading to decisions that are more likely to be profitable in the long run.

What Is a "Quality" Company?

This question can be answered in a thousand and one ways. A quality company can be a company that brings value to its customers and to the market. It might be a company that is showing constant growth. Or it might simply be a company that has a proven track record of success in whatever endeavors they engaged in.

It all depends on where you stand and the lens you use to look at this question. If you have to filter this matter through the most important aspect of dividend investing (long-term reliability), a quality company will usually meet a cumulus of characteristics.

In theory, it's all very easy: you need a company that **does** pay dividends and then reinvests those dividends over the years so that you increase your net worth.

However, the quality of the company you are investing is can make or break this simple plan. Otherwise, you might have to face severe cuts in dividend payments, the complete elimination of these payments, or simply stock price depreciation.

The most important characteristics of a good company for dividend investing include the following:

1. Consistent profits. If a company records amazing profits one year and drops well below that the next year, it's a clear sign that it might not be the steadiest business.
2. Growth. As it was mentioned before, the best dividend paying companies are not growing at a staggering rate - but they are

steady in the way they do this. This is quite important because you want to invest in dividend stocks that will appreciate over time. In general, look for businesses that show growth expectations that range between 5% and somewhere around 15%. Anything above that might lead to severe disappointments that will eventually hurt your portfolio's performance.

3. Good cash flow. Earnings are one thing, and cash flow is a completely different matter. The first will show you if a company is doing a good job, but the second will actually tell you whether or not that company will actually pay its dividends.
4. History. Generally, you should look for businesses that have increased their dividend payments over the past 5 years (or more). This will make it more likely that your chosen company will increase their dividend payments over the next years as well.
5. The ex-dividend dates. This is quite significant because buying shares after this date means that you will not be eligible for the current round of dividend payments.
6. Debt. Most companies have some form of debt, but you should definitely stay away from those that show excessive debt. As you will see later on, there is a special ratio that should be calculated to help you determine just how indebted a company is. Most of the times, companies with a debt to equity ratio of more than 2 are to be avoided.
7. Industry. This is a characteristic that is frequently overlooked, but you shouldn't make the same mistake. For instance, investing in an oil company might not be the best option, precisely because the entire industry is hanging by a string. With oil reserves running low and new technologies pushing electric cars further (both in terms of performance and in terms of pricing), oil companies might soon find themselves struggling. It might not happen overnight, but it is more than likely that they will not continue to grow any further.
8. At the same time, the healthcare industry is likely to boom over the next years. Not only are more and more discoveries made, but with the very numerous Baby Boomer generation aging, it is very probable that health services will be in higher demand over the next decades.

Low CAPEX (Capital Expenditure). Companies with lower capital expenditure are past the phase where they need to constantly reinvest their profits for further growth. Consequently, this means that they are more probable to pay dividends, rather than reinvest their earnings entirely.

This should be put into perspective a little. Some industries (like tech) need constant improvement and growth, so it should be a generally bad sign that a tech company is investing a very small percentage of their earnings into further research and growth.

At the same time, companies like this are unlikely to pay dividends anyway, so you might as well avoid them altogether. A decent CAPEX is OK for dividend investing, but if most of the company’s earnings are going into reinvestments, it is best to just move on to another option.

CHAPTER 8: LITTLE CASH MACHINE

Is dividend a cash machine? In this chapter, we will see how the dividend works and how it helps to make money.

HOW DOES DIVIDEND WORK?

See how dividends work, how they are paid, and what actions you need to take for your portfolio.

Rising share prices are not the only way to make money on stocks. Several companies also pay dividends to their investors, rewarding them with recurring cash flows solely for holding their shares. And even if companies sometimes reduce or even terminate their payments, dividends increase over time. Collectively, they have increased on average by 5.8% per year since 1960.

Below you will find basic information about how dividends work, how the board of directors of a company decides how much to pay (and when to pay it), and more. But let's start with the basics of dividend.

What is a dividend?

When you own a share of stock, you do not just have a piece of paper that goes up and down every day. As a shareholder, you own a business, and this means that you have the right to share the revenue generated by the company over time. Some companies reward their shareholders more by paying dividends.

In 2018, for instance, McDonald's (NYSE: MCD) made a profit of $5.2 billion, and the company decided to pay dividends of $3.1 billion to shareholders. Last year, you would have received dividends of $3.83 for every McDonald's share you owned, to be part of the business owner.

Dividends are generally of two types:

.**Regular Dividends:** Regular dividends are dividends that a company expects to pay regularly over time as part of its recurring earnings. Some companies try to pay a regular dividend that they know they can pay for the good and the bad years. Ordinary dividends are generally paid quarterly (once every three months).

.**Special Dividends:** These are the dividends that you can consider as "one-off" payments. A company can pay a special dividend after a series of very lucrative quarters. In some cases, a firm will pay a special dividend because it has sold some assets and has no immediate use of that money. Some firms also pay special dividends because they have accumulated cash over time to allow them to stay in business.

However, not all firms pay "qualified" dividends, which are taxed at capital gains tax rates. Some selected companies - Real Estate Investment Funds (REITs), Business Development Corporations (BDCs) and Limited Partnerships (MLPs), among others - pay dividends that are generally taxed as income. Indeed, these particular types of companies do not pay taxes on their profits and therefore pay "unskilled dividends" on which their shareholders usually pay taxes.

This book discusses all aspects of the tax code, but here is a guide to taxing dividends for the fiscal year 2018 that you should check later if you want to invest in companies that pay dividends outside a retirement count.

Do dividends matter?

In one word, yes.

Financial media often cite stock market performance by ignoring the impact of dividends. For example, you may hear that a popular index such as the S & P 500 Index or the Dow Jones Industrial Index "has reached a new historical record" or "has reached a level not seen since April."

When market performance is quoted in the media in terms of points, it almost always refers to the returns of non-dividend stocks. Frankly, ignoring dividends does not make much sense. Nobody would calculate the returns of leased goods except rentals, but the stock market return is presented in terms excluding dividends.

The charts of the stock market performance can be misleading. If you access a financial portal to search for S & P 500 returns, you will usually only see the "price-performance index". The S&P 500 Total Return Index only shows returns that include dividend reinvestment.

The graph above illustrates the big difference that dividends make over a long investment period. An investment of $10,000 in a mythical S & P 500 Index fund paying no dividend would have grown to $98,008. On the other hand, a fund that would have reinvested the dividends for you would have converted 10 000 USD in 186 914 USD. In some areas of the United States of America, the difference is big enough to buy a house!

This is not to say that dividend-paying stocks are likely to outperform stocks that do not pay dividends. But this shows that dividends are not simply a rounding error and that their contribution to the total return of the stock markets is substantial over long periods.

Selected Dividend Aristocrat	Dividend Yield
Pepsi (NASDAQ:PEP)	3.5%
Procter & Gamble (NYSE:PG)	3.5%
Target (NYSE:TGT)	3%
The Clorox Company (NYSE:CLX)	2.6%
Sysco Corp. (NYSE:SYY)	2.1%

Investing in dividend stocks

Investors who start investing in dividends often start with defined as aristocratic - dividend-paying stocks that increase dividends for 25 consecutive years or more. It is a very selective group of shares that have far exceeded the expectations of their shareholders. Investors who start investing in dividends often start with defined as aristocratic - dividend-paying stocks that increase dividends for 25 consecutive years or more. It is a very selective group of shares that have far exceeded the expectations of their shareholders.

Few companies have paid dividends for 25 consecutive years. Very few have increased their dividends each year for 25 years or more.

The list above is made up of some of the 53 dividend aristocrats on the market today, so it's just a sample of the companies that make the cut. But these companies do represent the types of companies that have sustainable business models that allow them to maintain and increase their dividends over time.

For instance, Procter & Gamble, Pepsi, and The Clorox Company are all consumer product companies. Pepsi earns money selling drinks, but it also owns Frito Lay, which holds some of the world's most valuable snack brands.

Procter & Gamble manufactures products that dominate grocery store shelves from Tide detergents to Gillette razors; In total, 22 brands generate more than $1 billion in annual sales. And while Clorox is known for its bleach products of the same name, it also has Hidden Valley vinaigrettes, Kingsford Charcoal personal care products and Burt's Bees, among other brands.

The products that these companies sell are almost proof of the recession. Although you may decide not to go on a luxury cruise if you lose your job, it is unlikely that you will stop buying toilet paper or a pack of chips while traveling to the grocery store. As a result, their profit power allows them to pay a constant dividend that can increase over time.

Both have increased their dividends each year for decades and are therefore considered aristocrats of the dividend, although they may not be as resilient to the recession as the consumer stocks that dominate the list.

Future Dividend Aristocrats

Stock	Dividend yield	Payout ratio (2017)
Apple	1.3%	26%
Visa	0.7%	24%

Apple is obviously among the most extraordinary stories in hardware today. Although the iPhone represents about 16% of the smartphone market in turnover, it captures more than 80% of the total profits of the smartphone, thanks to its higher profit margins. The result is that Apple is generating much more cash than it could reinvest in the company and has, therefore paid dividends up since 2012. (Apple has generated nearly $59 billion in free cash flow over the past 12 years. recent months, a portion of which relates to shareholders in the form of dividends.)

Similarly, Visa is an extraordinary payment company. Many people view Visa as a "toll road" where payments are made. Every time you issue a Visa card, the company charges a small fee to provide the network that connects the banks. Like Apple, Visa generates much more cash than it can reliably reinvest in its business. It has therefore paid an increasing dividend every year since 2009.

Importantly, the two companies could carry a larger dividend, even if their profits stabilized. This is evident in the corporate rate of pay - the percentage of their income they pay each year. In 2017, these two companies paid less than 30% of their dividend income. We now have several years of data suggesting that Apple and Visa consider dividends more than just a way to reward shareholders.

Dividend stocks have a special place in the portfolio of all investors. Whether you are a retiree who would appreciate a steady income or a growth hunter looking to increase your returns by reinvesting your quarterly payments, you should consider investing in companies with stable and rising dividends. Just remember to look for quality companies with good long-term prospects rather than high dividend yields.

MAKING MONEY FROM DIVIDENDS

One of the foundations of a good investment is to earn money with paid dividends. Too often, however, new investors do not fully understand the dividends, how they work, and how dividend stocks can add a stream of income to your bank account. The following overview describes the general principles for earning money from these types of investments.

Why use dividends as income?

Companies have money to pay dividends when they make profits. The board of directors, elected by the shareholders or the owners, meets and listens to management's recommendations on the number of profits to be reinvested in the growth, the amount to be used to repay the debt, the amount to be used for a share buyback an how much should be distributed to shareholders or owners. The last part, the money disbursed to the owners, is called the dividend.

To earn money by investing in dividends, you need to look for companies that have a good chance of increasing their dividends year after year, which will allow your bank account to earn more money. As sales and profits increase, so does the dividend, at least in some cases.

The more high-quality stocks you hold, the more dividends you will earn. Indeed, investors in dividends perceive this type of investment over time since a child can collect baseball cards.

Done correctly, the dividend investor's household income and net worth continue to grow and grow over time. Over 30, 40, 50 years or more, it would be possible to earn a substantial amount of money each year, with only dividends.

Earning money by investing in dividends involves a handful of important considerations. These include:

- The dividend offered by an offer of shares at the time of purchase.

- The company's earnings growth rate, which can be used to forecast future dividend increases.
- The health of the company's balance sheet. Investing in highly leveraged companies with declining sales is a real risk, no matter how large the dividend is.
- Current laws on dividend tax.

CHAPTER 9: WHEN TO SELL AND BUY A STOCK

Yield is a term that you will hear a lot when you are investing, and it is something that you need to learn inside and out so that you will be able to make sure that you are getting the most out of your investment career. Since you are going to hear a lot about yields, you need to make sure that you are getting the most out of the definition and that you are going to be able to do more with what the yields have to offer you. Once you have learned about yields, you can learn which ones you should be choosing.

Looking Ahead

Yields are the forward face of what your investment is going to earn for you in the future. They are, at their core, a prediction of what is going to happen with the way that things are going to go with the investment. Each company has a different yield, or prediction, associated with the shares that are a part of the company.

When you are trying to figure out what you need to invest, you need to make sure that you find out what the yield is. This is what is going to tell you how much money you can make and what you can expect to see. They are the **predictions** only and are not based on what happens with the profits right at that time. It is important to note, again, that they are only predictions and they are only an example of what could happen. You should not base your investment decision solely off of yields and what is going to happen in the future.

Not Behind

The yields never look behind or at what has happened with different payouts in the past. That is the job of the returns. The returns are different from the yields in that they are based on the information and what has happened before. They are based on concrete information, and that allows them to be more realistic in the way that they are taken care of. It can be hard for people to understand that they are different but the easiest way to remember it is:

Yields look ahead.

Returns look behind.

The returns will tell you what happened when people invested before and what they were able to make the investment. The yields just tell you what you should be able to make the investment that you are going to make as opposed to what people have already made. They are not based on factual information and are only done to create an outlook for you. Professionals have predictions that they can use to make sure that they are doing things the right way and that they are giving you an idea of what you can make.

Often Higher than Returns

Since yields are only a prediction and they are something that is the best case scenario, it is not uncommon for them to be much higher than the returns on the investments. The investments need to be taken to different levels, and the returns are not quite as high as yields because they are made up of actual numbers.

When you are considering buying a stock or investing in a company, you need to remember this about the yields. Since they will always be higher than the returns, you may be better off looking at the returns for a more realistic idea of what you are going to get back from the company.

It may be tempting to look at the yields and think of the best case scenario, but it is not always realistic. If you are thinking that you are going to get the yield amount each time that you get a payment from the company, you will probably be disappointed when you only get the return amount or an amount that is close to the return amount.

By understanding that yields are higher than returns, you are setting yourself up to not be disappointed by the money that you get back on the investment. The dividend payment should be much better than just the regular payment. It should be similar to the yield but keep in mind that it will not always be that high and the yields are often lofty aspirations that the dividend payments never actually get to.

Yields vs. Returns

There are places in investing for both yields and returns. It is unfair to pit them against each other when it comes to which is better because they are truly two different things. It is a good idea to know the difference before you choose which one you want to use.

The Yield

The yield is great if you want to see the potential. If you want yourself or anyone else to see how much you **can** make with an investment, the yield is a great way to look at it. While it is a prediction, it does have some basis in realism, and it can even use the returns to help it be the same as what it was in different situations. There are times when the yield can be extremely helpful for people who want to do more.

The Return

If you want to be realistic about investing, you absolutely need to use the return. The return is all about reality, and it is something that will show you what you are probably going to make instead of just what you could make. While it may be slightly disappointing to look at the return as opposed to the yield, you will be able to get a better idea of what you are going to do with the information that you have. You can also find out what is going to be the best investment for you so that you will be able to do more with your dividend investment.

A REIT is the best of both (or more) worlds when it comes to investing. It combines the excellent returns that come with real estate investing with the ease of management that comes with dividend investing. It is, essentially, a way for people to invest in real estate without ever having to "get their hands dirty." It is a way for people to make money from the properties and to invest in them similarly to how they would invest in a company or any other type of investment.

High Dollar

There are many requirements for a property to be considered for a REIT. This is because they need to be regulated to make sure that they are making the most amount of money possible and that they are truly profitable so that people will be able to enjoy the profits that come from the real estate. It is important that people do all of this so that they will be able to get the most out of the company and so that they will be able to do more with the company.

In general, real estate investment properties are a very high dollar. They are comprised of apartment and office buildings that bring in much more money than what they are worth or what has been mortgaged on them. They are often found in large cities, and they account for a large portion of what the city is made up of. You may not even know it, but you could be living in a REIT that has many different people who actually "own" the property through the shares that they have bought from the company. More often than not, tenants do not even know that they are living in a REIT and they just assume that they are living in a regularly-managed building.

Making Money

Investors make money from REITs in the same way that they make money from any other investment. They purchase a share of the property (or what would normally be a company) from the company, and they are entitled to a portion of the profits that come from the company (or the property). When people do this, they are putting their money into a company that owns the property, and that is going to promise them big profits if they make sure that they have their money in the company. It is a great way for people to make money.

Real estate investing is one of the most lucrative forms of investing, but it often takes a lot of active work to be able to do it successfully. REITs make the process passive, and people who invest in these properties do not even have to set foot on the property. They don't even have to set foot in the state where the property is, and they can get more out of it than what they would with an active real estate investment. Because of the way that they are able to sit back and relax, it makes REIT a very attractive opportunity for people who want to add more things to their portfolios.

Returns

The returns on most REITs are expected to be very high. This is because of the high valuation of the properties and what they have to offer. There is not a lot of money that is owed on the property and, if it is owned outright, the entire thing is going to be profit. The people who own the shares in the company will be able to benefit from these profits and will be able to make more money than what they had originally set out to do when they were first getting started.

Because of the way that REITs are set up, the majority of the time, the investors get such a large portion of the profit, they do not have to do anything else with the different features. It is a good thing that people can do more with what they have, and they want to make sure that the real estate is working for them. When it comes to REITs, people can truly enjoy the large returns. The only effort they need to put into it is the initial investment which is much better than most of the real estate investment opportunities that are done in the traditional style.

Buying and Selling

Another major bonus of REITs is that they can be bought, sold, liquefied and traded in the exact same way that other investment opportunities are done. They are shares and can be treated just like shares so that people will be able to get the most out of what they have to offer. It is something that most people can benefit from and something that others are going to be able to do.

If you want to make sure that you are getting a great opportunity, you will be able to do so with REITs. This is a great way for people to make sure that they are doing more and that they can get the most out of real estate. Unlike typical real estate investments, it is very easy to buy, sell and trade the REITs. This is because they are shares just like any other company and they can be treated as such when they are being purchased and sold. They do not require months of planning to be able to buy or sell them and the actual process is much quicker than just buying real estate would be.

Now that you have learned how to make the best dividend investment in your entire portfolio, you will need to learn how to manage all of the wealth that you are going to have in the end. This may actually be the trickiest part of dividend investing and is often the part where everyone slips up and loses the money that they have made. Make sure that you are prepared for your passive income and that you are doing what you can to make sure that you are getting what you need out of it.

Save It

The easiest thing that you can do with your income that you get saves it. It is a good idea to try to save around 50% of what you make from the passive income. This is easy to do, especially if you have not taken on investing full time. Save the money so that you will have it later on in case something happens or just for the sake of saving it. By doing this, you will give yourself a great start to a retirement, a vacation fund or something else that will make your life better.

It should be relatively easy to save the money that you have made with passive income. Since you don't have to worry about the problems that come with a traditional job, you will not need to worry about making money. You can save a much larger amount of money if you are using the investment as supplemental income. If you are using the investment as your main source of income, it may be more difficult to save 50%, but there is still a chance that you will be able to do it.

High Interest

The best way to save your money is to find a high-interest savings account. This can be from your bank, online or even on a CD that will make you more money. The best things about high-interest savings accounts are that they are yet another form of passive income. You don’t have to do anything other than put your money in the account and it will grow while it is sitting in the account. This is a great way to make even more money than what you already made on the investment.

The high-interest savings account will obviously not make you as much money as reinvesting it or even the initial investment, but it will help to keep it in your hands and grow a little bit more. The more money that you put into the account, the higher the interest will be because you will be able to make more money from what you were doing with it. It is a good idea to always find the highest rate possible and stick to it. You can always find out if the bank or institution where your money is at can raise the interest amount. In fact, some banks do that automatically if you keep your savings account open for a long time.

Spend It

If you have a plan to spend your dividend investment income, you will be less likely to spend it on things that you don’t need. Set aside money that you are going to spend out of the money that you make and make sure that you only spend that much. If you give yourself a set amount of money, you will be less likely to spend recklessly and make purchases that you may regret later on after you have run out of the dividend payment.

It may seem counterintuitive, but you can even put aside money specifically that you can waste on things that you don’t want. This is “blow” money and is money that you can spend on anything – from new high heels to a gallon of ice cream at the grocery store. The money is yours to use in any way that you want, and it will help you to budget it.

You will find that, the more money you make, the harder it is to budget. Keep a 10% rule for your “blow” money so that you can make sure that you do not get out of hand with it and so that you can keep it below your average spending amount. This will help to keep your spending in check.

Invest It

Investing your money that you have made from investing your other money is one of the easiest ways that you can grow the wealth that you have already made from dividend investing. The investment that you make does not need to be perfect, and it is something that you can feel good about. Any type of investment is better than nothing and putting your money back into investing is a great way to make even more money.

When you are going to invest the money that you have already made from investing, there are two different ways that you can do it. You can make money and put it back into the investment that you already did, with the dividends. Or, you can choose to try something different in the investment world. By making sure that you know how to do each of these things, you will have plenty of options when it comes time to making the more money from what you have already made.

Try New Things

If you have money that you want to be able to invest but you do not want to do anymore dividend investing, you can always try to do a different type of investing. There are many different options that you can try out, but the majority of these will be profitable if you know how to put your money in the right place. Trying out an index fund or something similar will be a great way for you to make the most amount of money on money that you have already made. You may also consider something like a REIT to be able to make money.

Switching it up and trying something different can change the portfolio that you have and give you the variety that you need to make sure that you are doing things the right way. It can be hard to make sure that you get that variety especially if you are focusing on dividend investments but investing some of the money that you made back into something else is the easiest way for you to make sure that you are making the most amount of money possible.

Your portfolio will thank you for the variety that you have added to it.

Put it Back In

Another option that you have when it comes to your dividend investments is to put the money back into your dividend investment. You don’t need to put all of your money back into the investment that you have already made, but it is a good idea to choose the right way to be able to invest if you are working toward doing more with what you have to offer.

If you are going to invest money back into your dividend investment, you need to make sure that you do it the right way. Do not invest all of your money into the same investment. This is dangerous and could leave you with no income. If you are able to invest money, you should do around 50% of the money that you have made. This is a good number because it will leave you feeling that you have made a good choice with keeping the money as well as putting it back into the investment. You can also make a lot more money from investing 50% as opposed to 15% or 25%.

CHAPTER 10: HOW TO SURVIVE A BEAR MARKET

When businesses reach a certain level of maturity, they do not need to invest as much in themselves - and that is the moment they may consider issuing dividends.

One of the reasons they might want to do this is because a lot of investors are attracted by the idea of a steady income (which is what dividends can provide). Therefore, they will be more interested in buying a company's stock if the company is growing and thriving. On the other side of the fence, the company will be more likely to attract funds via dividend investments.

It is worth noting that the more desirable a company is, the higher the price of the dividend will be. For instance, some of the most well-known companies to offer dividend investment options include Apple, Microsoft, Verizon, and so on. Apple's stock price is of $207 at the moment[1], and if we consider a company in the same tech spectrum, but with much smaller desirability, Twitter's stock price is $39. [2]

Alright, a lot of companies sell stock - but not all of them pay dividends. There are a few reasons that might lead a company to do this:

- If a company is growing at a rapid pace, they will most likely not pay dividends because they want to reinvest their profits into further growth.
- Sometimes, even if a company is already mature, they might take the decision not to pay dividends because reinvesting in new assets or buying other companies are better for the long-term growth of the business.
- Sometimes, companies might be considering the expenses of issuing new stock - and thus, they might choose to reinvest their earnings, as opposed to issuing dividends.

Not paying dividends may not sound like an advantage for an investor. However, it can be more beneficial for them if you look at the matter from a tax perspective. In this case, investors can pay as low as 0% and as high as 20% in terms of taxes (as opposed to paying 37% when dividends are paid normally).

Some examples of companies that have not paid dividends include Facebook, Amazon, and Tesla.

If, on the other hand, a business has excess earnings and takes the decision to pay dividends to their common shareholders, they will declare an amount, as well as a payable date. Most often, this happens quarterly, when the company has already finalized its income statement.

As mentioned before, dividends can be paid either as a dividend check or in additional shares of stock. Regardless of which of the options a company may settle for, it is worth noting that dividends are taxable income.

The first option is the most common and standard one. In this case, the shareholders receive a check by mail. Most often, this happens a few days after the ex-dividend date (which is the date when stock will start trading without considering the dividend that was previously declared).

When companies opt to pay dividends in the form of additional stock, they do so by abiding by their dividend reinvestment plan (DRIP). This type of plan can be quite advantageous for investors. For instance, if the investor wants to add to his/her equity holdings without further investment per se, a dividend reinvestment plan will make this process easier. Furthermore, DRIPs tend to be commission-free, since a broker does not have to be used in the process. This makes DRIP options quite appealing particularly to smaller investors who may not want to pay commission for smaller purchases of stock.

Furthermore, DRIPs are beneficial from the point of view of the price of the actual stock as well. Many times, companies offering such plans will offer the additional shares for sale at a discount. Combined with the lack of commission, this can lead to important savings for investors.

When a dividend is declared, all the shareholders will be announced through a press release. Moreover, the information will be shared with various stock quoting services as well.

When the declaration is made, a record date will be set. This means that all the shareholders who are on record by that date will be entitled to receive the payment. The ex-date is consisted of the day following the record date. Anyone who purchases shares on an ex-date will not be entitled to receive the dividends. The payments will be released to eligible shareholders approximately one month after the record date.

When the payable date arrives, the company will disburse the funds using a Depository Trust Company (DTC), sending the payments to the brokerage companies around the world that hold the shareholders' stock. These brokerage firms will apply the cash dividends to the eligible client accounts, or they will proceed with reinvesting the cash dividends according to the client's instructions.

What Are the Advantages of Dividend Investing?

Obviously, if dividend investing is so popular, it must pose some pretty big advantages, right?

Well, yes. Dividend investing does show considerable benefits that make this more popular than other types of investment.

Following, we will discuss some of the features that make dividend investments such a good option for such a wide range of investors.

Safety

Of course, one of the first things you will think about when creating an investment portfolio is whether or not it is safe - and when it comes to this, dividend investing is one of the safest baskets to put your eggs in.

Sure, you still have to make sure to not put **all** your eggs in the same basket (and definitely not in the same company when buying stock). But even so, dividend investment makes for a sane, fairly predictable type of investment.

When buying stock, most people think of their shares as an option to grow their portfolio - and this makes all the sense in the world. However, you should also consider at least part of your stock as an attractive alternative when it comes to generating actual, current income. The higher dividend-paying stocks in your portfolio can become a very important part of your safety plan for the future.

Aside from the fact that you get to see your money sooner, rather than later, in the form of dividend payments, you should also consider the fact that stocks are one of the easiest types of investments in terms of how you can grow them. Even when you **do** focus on a safe, income-generating portfolio, you should still include some stock options that have the potential to grow, because capital appreciation is desirable.

It is more than important to mention that not all dividend investment is safe - but using the right strategies and keeping your mind cool can help you create a portfolio that is safe, gives high returns back, and is as diverse as possible.

To understand why dividend investing is a safe option, consider the following points:

- **Reinvested dividends are actually one of the largest parts of the total stock market. The cumulative return of the S&P 500 since the late 80s has been of no less than 431%.[3] If you take dividends out of the statistics, however, the cumulative total return drops to just 258%, showing just what an important role dividend investing plays on the market.**
- **Dividends change over time, according to how profitable a company becomes (or how much its profitability drops). Depending on these changes, investors tend to change their focus to current income (from capital appreciation).**

That doesn't sound like dividend investing is a safe option. However, certain types of stocks are known to have paid large dividends over the course of the years. In general, these are large and well-established companies. This means that as an investor, you should probably focus on older and more established indexes, such as the S&P 500 when looking for dividend investment options, rather than newer indexes, such as Russell 2000.

Furthermore, it is also worth noting that most of the new, rapidly growing industries (and the companies pertaining to them) are known to pay low dividends (or none at all, for that matter). This includes tech, biotech, and other similar companies. So, if you are looking for dividend investment options with high returns, you should probably look into the more traditional, slower-growing industries - such as drug companies, utility companies, and so on.

- **One of the safest dividend options are the broad-based indexes of stocks. These stocks allow for a lot more diversity**

than individual stocks and thus reduce the risks that come with holding a single stock that doesn't perform well. High dividends usually come from mature companies that are already established on the market and show consistent earnings. More often than not, these companies' stock will not be very volatile, so they are not always the best option for stock investment for capital appreciation.

It is also worth noting that bonds and certificates of deposit are safer than most of the investment options, including dividend investing. The reason they are so safe is because their coupon payments are guaranteed by contract, while dividends are paid based on the company's discretion.

A lot of businesses pay dividends consistently and are committed to this, but this is not guaranteed by any kind of contract, so changes can occur. For example, if a business finds itself in financial difficulty or if the economy is poor, this might affect whether or not that business pays its dividends. The reason they do this is that they want to strengthen up their balance sheets, and not paying a dividend to the shareholders is one of the best ways to ensure that. Therefore, when investing in dividends, you should make sure to factor this risk and the impact it could have on your finances.

- **Preferred stocks are an option you might want to consider as well. This type of stocks stands between common stocks and bonds in terms of how companies structure their capital. Corporate bonds tend to be safer than preferred stocks, but even so, the latter is safer than common stocks.**

In general, preferred stocks don't offer a lot of room in terms of capital appreciation (or at least not as much as common stocks), but the current income is usually a compensation that makes them attractive to investors. Also, preferred stockholders are paid before the common stockholders, which means these types of stocks are more stable than the common ones.

It is also important to know that companies can withhold preferred stock dividends if they are going through difficult times. So, the income from a preferred stock is less safe than that of a company bond.

Payments Go Up

Another feature that makes dividend investing appealing to investors is the fact that payments can go up. Of course, it is extremely important to note the fact that not **all** dividend stocks will grow over time - but when you select the right ones, this can be a considerable advantage.

There are three major elements to consider when selecting dividends that show the potential to grow:

- The history of the dividends paid by that company. Look at what are the dividends currently paid by a company, as well as the way they have evolved historically. Be careful with companies that pay dividends that are too high, because these are usually associated with high risk as well (it is unsustainable for a business to pay this much in terms of dividends).

The older a company is, the more history you will have to look at - and this is one of the very important reasons to invest in older companies when it comes to dividends. When you have a lot more to look at, you can go a bit further than guesswork and analyze a clear pattern for that company's dividend-paying behaviors. Yes, the performance of a company is not always a good indicator of how it will perform in the future, but even so, it is a very good point to start with when analyzing your investment options.

- The valuation of the stock. When you want to select dividend investment options that have the potential to grow over time, you should look at the value of the stock you want to buy and make sure that it is the best possible price. For instance, when the stock markets crash, some investors take the opportunity and buy stock at a very low price. This is not something you should do if you are new in the art of investments, but it is something that **can** be done, provided that you have the data and the intel that the market will soon come back up.

Furthermore, you should also calculate the price/earnings ratio (divide the price of the stock at the moment by the earnings you will receive for every share in that company). This will not only help you determine how much your payments will be if nothing changes for the company, but it will also help you determine if that company’s stock is undervalued or overvalued.

- The quality of the stock. When analyzing dividend investing options, it is also quite important to look at the qualitative values of the company you are scrutinizing. In general, the more boring a company is, the better it will be for you (e.g., a company that was founded a long time ago, maybe even a century ago, and has very diverse activities all over the world). General Electric is a very good example in this sense - they might not come up with anything exciting, but they are very stable on the market, and they have been so for a long, long time.

Furthermore, industries that show constant growth are also a good place to look at. For example, the healthcare and telecommunications industries are generally believed to grow at a steady pace, as the demand is constantly growing as well.

Uncomplicated Withdrawal when Renting

Dividend investing offers the option of renting stocks as well. This works a lot like renting an apartment: you pay a certain sum of money, and that place is yours to use for a given amount of time. On the other side, the person you are renting the apartment from gets to see immediate payments from an investment they made (buying real estate).

If you own stock, you can write a call option on the stock - which is similar to renting your apartment or house. Another investor will buy the call option from you, and the money they pay is deposited in your trading account. You cannot withdraw the money until the call option expires or the stock is sold - but given that call options are made for a predetermined amount of time (just like in the case of renting an apartment), it is easier for you to withdraw money than by selling the stock yourself.

Multiple Ways to Make Profit

Another advantage of using dividend investing in solidifying your portfolio is the fact that it will allow you to make money two ways. On the one hand, dividend investing can yield considerable profits if you invest in stocks that will appreciate in price. On the other hand, if the price does not appreciate, or if you simply decide not to sell your stock, you can still make a profit by receiving dividend payments.

Furthermore, when you collect dividend payments, you continue to be the owner of the stock, which means that its value will not instantly vanish from your portfolio. As mentioned before, dividend investing works best when you find old, well-established companies that offer such plans - so your investment will be there next year, and the year after that, and the year after that, until you decide to sell the shares.

Last, but not least, it is also important to keep in mind that dividend investing will provide you with the relatively quick cash you can use to grow your investment portfolio even more.

More Likely to Make Profit in Unsettling Times

As it was mentioned before, it is up to a company whether or not they pay their dividends. However, when it comes to bear markets (markets where shares are either dropping or flattening), companies that have historically paid dividends are more likely to continue paying them as long as their profitability is running well.

Again, it is entirely up to a company if they decide to pay their dividends or not - and they are most definitely not bound to doing this. Respectable companies with a lot of experience behind them are more likely to continue paying dividends, but it is not a **must** - so take this advantage with a pinch of salt.

Of course, these are just some of the basic, high-level advantages of dividend investing. it is extremely important to be aware of the fact that there is no perfect form of investing - each of them has upsides and downsides, and the key lies in creating a portfolio that allows you to continue making a profit even if one of the elements in it is not as profitable as it should be.

I will dedicate the following chapter to showing you how dividend investing can show significant disadvantages as well. This is crucial for your understanding of how dividend investing works. It is absolutely essential that you know what you are getting yourself into, both with its positives and with its negatives - the first will help you keep your eyes on the prize, while the latter will help you make sure you avoid major mistakes along the road.

As you will see, the major disadvantages of dividend investing are mostly connected to external factors, as well as how dividend investing is perceived at tax-level. Dividend investing is not in any way perfect - but balancing its pros and cons will help you get the bird’s eye view and know exactly how to proceed when building your portfolio and including dividends in it.

CHAPTER 11: FUNDAMENTAL ANALYSIS

Fundamental analysis involves getting data about a company's stocks or a particular sector in the stock market, via financial records, company assets, economic reports, and market share. Analysts and investors can conduct fundamental analysis via the metrics on a corporation's financial statement. These metrics include but are not limited to cash flow statements, balance sheet statements, footnotes, and income statements. Most times, you can get a company's financial statement through a 10-k report in the database. In addition to this, the SEC's EDGAR is a good place to get the financial statement of the company you are interested in. With the financial statement, you can deduce the revenues, expenses, and profits a company has made.

What's more? By looking at the financial statement, you will have a measure of a company's growth trajectory, leverage, liquidity, and solvency. Analysts utilize different ratios to make an accurate prediction about stocks. For example, the quick ratio and current ratio are useful in determining if a company will be able to pay its short-term liabilities with the current asset. If the current ratio is less than 1, the company is in poor financial health and may not be able to recover from its short-term debt. Here's another example: a stock analyst can use the debt ratio to measure the current level of debt taken on by the company. If the debt ratio is above 1, it means the company has more debt than assets and it’s only a matter of time before it goes under.

Technical Market Analysis

This is the second part of stock market analysis and it revolves around studying past market actions to predict the stock price direction. Technical analysts put more focus on the price and volume of shares. Additionally, they analyze the market as a whole and study the supply and demand factors that dictate market movement. In technical analyses, charts are of inestimable value. Charts are a vital tool as they show the graphical representation of a stock's trend within a set time frame. What's more? Technical investors are able to identify and mark certain areas as resistance or support levels on a chart. The resistance level is a previous high stock price before the current price. On the other hand, support levels are represented by a previous low before the current stock price. Therefore, a break below the support levels marks the beginning of a bearish trend. Alternatively, a break above the resistance level marks the beginning of a bullish market trend. A technical analysis is only effective when the rise and fall of stock prices are influenced by supply and demand forces. However, a technical analysis is mostly rendered ineffective in the face of outside forces that affect stock prices such as stock splits, dividend announcements, scandals, changes in management, mergers, and so on. Investors can make use of both types of analyses to get an accurate prediction of their stock values.

CHAPTER 12: BUILDING AND REBALANCING YOUR DIVIDEND PORTFOLIO

Building an investment portfolio is all about creating diversity, which will maximize your gains and minimize the risks at the same time. Dividend investing should be a part of this portfolio, especially if you decide to invest for retirement or for another long-term goal.

Selecting the right stocks to add to your portfolio is, obviously, very important. Beyond the quality of the company offering dividend stocks, you should also consider a series of factors - such as the form by which these stocks are organized and the way they are paid out. This will help you create a more accurate prediction of your earnings in the future so that you know exactly what to expect.

There are four main subjects I would like to touch on here: ETFs, DRIPs, dividend capture strategies, and the so-called Dogs of the DOW. These are some of the main methods you can choose from when making dividend investments, and it is very important that you understand how they work so that you can create the right mix of them for your investment portfolio.

So, without further ado, let’s dive into this.

ETF

ETFs (Exchange-Traded Funds) are listed and traded on a stock exchange - meaning that most of the times, they “behave” just like any other type of stock: they are purchased through a broker, and the profits are filtered through that broker as well.

When you invest in an ETF, your money will be brought together with the money of the other investors and the company will invest the collective sum according to their declared objective.

Most of the times, ETFs aim to produce returns that either track or replicate a very specific type of index - like the stock index or the commodity index, for example.

These ETFs are usually managed passively by Exchange-Traded Funds managers, and they do not usually outperform the index they are tracking (they do not aim to do that). Therefore, ETFs that track indexes are usually associated with lower fees and charges than investment funds.

There are multiple types of ETFs, categorized according to their structure (e.g., cash-based ETFs vs. synthetic ETFs). Furthermore, many ETFs are considered to be Specified Investment Products (SIPs), which means that you may or may not qualify to make an investment of this kind.

ETFs can yield profit in two main ways: by capital gains (when the price of the units you purchased in said ETFs rises above their purchase price) and by receiving dividends.

One of the major disadvantages of ETFs is connected to the fact that they do not guarantee your principal. So, for example, if you invest $50,000 in an ETF and the company fails, you will not only not profit from this investment, but you might lose the invested money as well. These risks are usually highlighted in the prospectus, so you should pay a lot of attention to every piece of information you receive.

Obviously, there are a lot of advantages for ETF investments as well. Some of the most popular ones include:

.The fact that you can actually gain exposure to indexes and their performance without investing in all of their component stocks.
.The fees and the charges are usually smaller than those of actively managed funds.
.Most often, there is no sale charge associated with ETFs.

Do keep in mind the fact that ETFs might not be for everyone. To make this type of investment, you should make sure you:

.Want potentially high profits, but at the same time, you are ready to face potential variable returns and losing all (or a large chunk) of your initial investment.
.Understand very precisely how ETF returns are calculated, as well as the factors that might affect these calculations.
.Understand that your money will be blocked for a long period of time.

.You are prepared to make a long-term investment, as this is one of the safest ways to ensure that short-term price fluctuations will not affect your business. Some ETFs might be suitable for more short-term investments, but this is a matter that needs to be thoroughly analyzed.

.You are fairly familiar with both the ETF's track record and with the manager handling it.

Aside from the major advantages and disadvantages, you should also consider the main types of ETFs, so that you know which one(s) suit your objectives the best. Do note that these ETF categories are created based on their structure, and not necessarily the underlying index they are tracking (two ETFs can track the same index and be structured differently).

The main types of ETFs are the following:

1. Cash-based. This ETFs are invested directly into an index's assets as follows:

- The entirety of that index's component bonds, assets, or stocks
- A part of the index's component bonds, assets, or stocks.

.Synthetic. These ETFs are slightly more complex than cash-based ETFs because they use derivative products - such as access products or swaps to produce returns.

Put in very simple terms, this means that more parties will be involved in an ETF's derivative products (e.g., the counterparty of the swap or the issuer of the access product).

This comes with risks you should be aware of. For instance, if the other party involved in a derivative product defaults on their payment obligations, you might end up losing a substantial amount of money (depending on how much the ETF is exposed to the other party).

DRIP

DRIPs (or Dividend Reinvestment Plans) are programs that give investors the opportunity to reinvest their dividends into buying more stock in the company. Sometimes, this term is used to refer to an automatic reinvestment arrangement you have with your brokerage company, but most of the times, DRIP is a formal program created by a publicly traded corporation which is available to its already existing shareholders.

It is quite easy to understand how these plans work. Normally, when dividend payment is issued, the shareholders will receive a check deposited directly into their bank account. With a DRIP program, you can use the money to reinvest it in additional shares, purchased directly from the company (as opposed to buying them from the stock market, using the services of a brokerage agency). This means that no commission fees will be applied for the transaction, and the redemption of the shares happens directly between you and that company as well.

DO keep in mind the fact that even though you will not receive the actual dividends, you still have to report this as taxable income. Exceptions from this rule make situations when these dividends are held in tax-benefited accounts, such as IRAs.

Dividend Reinvestment Plans show both advantages and disadvantages - and you should be aware of both in order to make the best decision.

The main advantages of a DRIP program include the following:

- The opportunity to buy stock at a discounted price (which can be as high as 10% of the current stock price).
- The opportunity to not pay commission fees
- The possibility to buy fractional shares
- The automatic nature of the program and its long-term profitability. The more time you spend in a DRIP, the more shares you will continue to receive, and thus, by the end of the cycle, you will own a considerable amount of shares in that company, which you can monetize in different ways.

The main disadvantages of a DRIP program, on the other hand, include the following:

.The shares are not liquid
.The dividends will still be taxed
.You aren’t given with a choice

DIVIDEND CAPTURE STRATEGY

There are several strategies you can employ when building your dividend portfolio - but the dividend capture one is, by far, one of the more popular (and exciting) options you have.

The dividend capture strategy tends to be more popular with day traders (who buy stock and sell it by the end of the day). This strategy involves the frequent buying and selling of stocks and holding them for short amounts of time (enough for you to capture the dividend payment on the stock).

This strategy is not necessarily geared at long-term investors who are ready to wait for long periods of time to see their yields. Instead, this strategy is aimed at shorter-termed gains, and it focuses on dividends that are paid monthly (they are less common than annual or quarterly dividends, but they do exist).

A typical dividend capture strategy timeline includes four main points:

- .The declaration date (the date at which the company declares its dividends, which is usually in advance of the payment by a lot).
- .The ex-dividend date (the date at which new shareholders stop being eligible to receive the dividend payment and the date at which the stock price will most likely drop, depending on the declared dividend amount).
- .The date of record (the last date shareholders are eligible to receive the dividend payments).
- .The pay date (the actual date when the dividends are released to their shareholders)

One of the main traits that make this strategy so attractive to so many investors is the fact that it is **simple**. You don’t need to run in-depth, fundamental analyses on anything, and you do not need to chart anything either. In very simplistic terms, what you need to do is purchase stock shares before the ex-dividend date and sell them after that. If the price per share drops (which might happen), all you have to do is wait until it comes back to its initial value. Furthermore, you do not necessarily need to hold the stock until the pay date (provided that the stock price will come back by then, of course).

In an ideal world where stock markets are operated according to perfect mathematical logic, this strategy would not work - but alas, markets don’t function according to perfect rules.

For instance, if you buy a share worth $10 before the ex-dividend date, if the dividend is worth $0.5, and if you sell your share with $9.75 after the ex-dividend rate, you will make a $0.25 in profit. That does not seem like much - but multiply this by the hundreds, and you will see how the dividend capture strategy can yield attractive profits in a very short amount of time (sometimes, as short as one day). Moreover, when you do this every day (because almost every day in the calendar offers a dividend paying stock), you will be able to reap considerable benefits.

If you decide to use the dividend capture strategy to maximize your return, you should also be aware of the tax implications that come with this. More specifically, due to the short-term nature of these investments, you will most likely have to pay your normal income tax for these profits (as opposed to the preferential tax rates applied for qualified dividends, and which are taxed at 20%, 15%, or as low as 0%).

Taxes can be a deterrent for those of you considering the dividend capture strategy - but, again, do keep in mind that doing this in an IRA trading account might help you avoid the taxes on dividends.

It is also important to know that some transaction costs might be applied in the case of dividend captures as well, minimizing the gains even more. However, it is also essential to note that there are some risks associated with this method as well:

- If the price of the stock drops on the ex-date by more than the amount of the dividend, you will have to maintain your stocks for a longer period of time than you initially planned, to make sure the price gets back up to its initial value.
- Unfortunate and impermissible market movements can also affect your gains when using the dividend capture strategy. This risk can be somewhat minimized if you only focus on blue-chip companies (businesses that have a national reputation for being extremely reliable and show the ability to make profits in both goods times and bad times).

DOGS OF THE DOW

The Dogs of the Dow strategy is quite popular, and, as you will see, there are several good reasons that make it so appreciated by a wide range of investors.

This strategy involves investments that use the 10-highest dividend stocks on the Dow Jones Industrial Average index every year. These dividend stocks are offered by blue-chip companies, and they are qualified as a high dividend by one of the oldest, most reliable, and popular indexes in the world.

One of the main advantages of the Dogs of the Dow strategy is connected precisely to the fact that investments made in such companies are quite predictable - so they will more or less fall in line with your plans.

This entire strategy relies on the assumption that blue-chip companies will not change their dividends based on the trading conditions of any kind. Therefore, their dividends are frequently considered to show the worth of the company.

While stock prices for these businesses may fluctuate over the course of a business cycle - the higher the dividends, the more the price will increase towards the end of the business cycle. This means that reinvesting in this type of companies every year will help you outperform the overall market.

There are 30 companies comprising the Dow Jones Industrial Average, and all of them pay dividends. Moreover, as blue-chip companies, they are considered to be highly reliable even if market changes affect other companies' profitability.

The Dogs of the Dow strategy is not about investing in all of the Dow Jones companies - but in those that show the best yields per share. These dividend yields can be as high 5.7% (such as in the case of IBM in 2019), but they do not generally drop below 2.9% (such as in the case of Merck & Co. in 2019). [6]

The main idea behind the Dogs of the Dow investment strategy is to pick easy and safe stocks. Ideally, you should do this on the last day of the year, after the stock market closes, by looking at the highest yielding stocks on the Dow index. On the first day of the next year, you should invest an equal amount of money in all of the selected stocks, and then hold the portfolio for approximately one year.

There are a lot of tools to help you make the best choices when it comes to the Dogs of the Dow options - including opinion pieces, forecasts, calculators, and so on. It is important to study all of these to make sure you are fully informed and that the stocks you are buying are the best options for your portfolio.

The Dogs of the Dow strategy is not for the short-distance runners, but for the long-term strategists. While the Dogs of the Dow sometimes outperform the Dow, this is not mandatory. The key here is investing long term and maximizing on the good years by creating an average over time that will provide you with the best profitability in the long run.

Of course, these are just four of the main strategies associated with dividend investing - and while they are most definitely among the most popular, it is still quite important that you do your own research. The more accustomed you get with the world of dividend investing, the more complex your strategies and portfolio will become, helping you reap all the benefits this form of investment has to offer and downplay the less advantageous sides.

Following, I will present you with some of the most important tips to know when it comes to protecting your investments and ensuring you don’t make major mistakes along the way. Following this advice will help you stay as far away as possible from the potential risks of investments (particularly, from the risks of dividend investments) so that you can make the most out of your portfolio even if parts of it do not perform as well as they should be.

CHAPTER 13: RISKS AND AVOIDABLE MISTAKES IN DIVIDEND STOCK

While we're on the subject of risk, let's discuss some common dividend investing mistakes that many beginning investors make. Even the most experienced investor, who has taken time to study the markets really well, can make a terrible mistake. The bad thing about investment mistakes is that they are very costly. You might regret ever making them, and this can go on for a long while. It is good to be on the lookout for some of the common and costly mistakes that you could make, like any other investor, so that you can minimize the occurrence. This way, you might invest and enjoy your decisions thereafter.

Many of these are very avoidable, and I've made many of them myself! Hopefully, you can learn from my mistakes and the mistakes of others!

1. Focusing too much on yield

Many investors often focus too much on the dividend yield that they forget yield and risks are directly related.

The higher the dividend yield, the less likely the dividend is sustainable long-term and the greater the risk for a dividend cut.

That's why you want to shoot for the "Goldilocks" zone of 3–7 percent. Dividend yields in that range, can be sustained by strong and well-run companies.

Shooting for the stars with a 10 percent yield is just asking for trouble! **Don't get too caught up in yield!**

2. Going for high yields

This is a very common mistake in investment, and it is a trap that almost all investors go for. The yields of a company can be really attractive, and an investor may overlook all other important factors just because a company registered good yields. The financial health of a company should matter more because you are not investing in the company for short-term benefits.

Consider the sustainability of the dividend as well as to ensure that you will be getting something for the years that you invest in that company.

3. Cheap does not equal value

A lot of dividend growth investors like to focus on the numbers (especially me).

Many investors salivate at the prospect of investing in a dividend company trading at a “cheap” valuation. However, stocks are sometimes cheap for a good reason. They’re bad businesses!

Would you be willing to pay 10x earnings for a business that pays a 7 percent dividend but with earnings that are declining at 8 percent a year? Probably not.

Always be wary when a stock trades at a significant discount (25 percent +) relative to peers or the stock market average.

I’ve lost more money buying “cheap” stocks than I have buying companies at a fair price and at a slight discount to the market.

4. Ignoring possible future dividend growth

The importance of research before investing helps you to determine the trend at which the company is going so that you will know its possible performance years to come. This is very important. You do not want to get the same dividend payment you got this year, twenty years to come. You need to invest in a company that has a likelihood of increasing its dividends payout over the years. Invest in the right company. Chances that its share price will eventually go up as well as its dividends are high.

5. Failing to diversify

This has been discussed earlier in this book. Diversification helps an investor to spread the risk so that you will not lose everything in the case of a problem. Market conditions change, and they might affect your investment. If you have invested in just one or two sectors, the chances of losing your investments will be high if the two sectors are affected by the market conditions. Besides, you want to enjoy what other sectors are offering, therefore, invest in more sectors.

6. Ignoring the outcomes

After investing, many investors do not pay attention to what will happen after that. Their main concerns become the dividends they are expecting at the end of a certain period of time and this can lead to your failure if you are not careful. You need to classify your stocks to know which ones require more attention than the others. You need to keep checking what is happening in the market to determine if you have made the right decision. If there are stocks that will start to do better, you commit to them, and if there are those that are not doing so well, you give them your total attention to be able to make the right decisions when the time comes.

THE BIGGEST MISTAKES TO AVOID WHEN GROWING YOUR PORTFOLIO

A big reason why dividends are looking more and more attractive to investors these days is because the yields and bonds are stressfully low, and investors who are looking to plan for their eventual retirement are looking towards dividend-paying stocks for a more dependable income that builds efficiently over a longer period of time.

Dividend investing has become a popular strategy during a time where fixed-income is falling into lows that haven't been hit before and the baby boomer generation is preparing to enter the world of retirement.

That's not to say there isn't any sort of pitfalls, as with anything in the stock market during tough economic times. There are a number of catches in the face of all of the good things that dividend portfolios bring—a list of about seven according to San Francisco advising company, Forward Management, in a report titled How Not to Invest in Dividend Stocks.

Relying on Overly Mechanical Investment Plans

These kinds of strategies often ignore basic shifts as well as dividend policy changes, which could build a problem for the investor's dividend profits flow. This has happened a few times in Europe where many of the telecommunication companies that will paid via benefits had higher makes that had increased beyond completely – which, mentioned previously earlier, is a danger sign that things are planning to go down because what climbs up must come down.

Ignoring a Variety of Growth Factors

Profitable investors have to see and evaluate not only the dividend yields that every company has settled, but also what the company's potential is made for both growth and appreciation – expansion is what allows someone every single child have more settled to them over a longer period of time, which often can help them keep a livable income when they join the old age community.

For illustration, let’s imagine that an investor has any portfolio with $1 million and would like to withdraw about $50,000 per year for expenses like home, food, and so forth. If the trader earns about 3 percent in whole returns, less than 1 / 2 of the starting equilibrium would remain after two decades. Another 10 years later, that same trader earning only 3 percent could well be close to jogging out. Now if in which same person was able to grow their returns to about 7 percentage, they would have savings of about $3 million there after same 30 year period.

Showing Favoritism to the Home Market

There are many options overseas in other countries which have the booming economy that are paying dividends which have higher averages, that are obviously more positive to investors in addition to sometimes provide better options the United states.

Investing in the particular global market has developed into very important factor in the ability to diversify a portfolio by such as industries in those people fast-growing markets. By way of example, people are beginning move cloud surgical procedures overseas to African countries since the demand is increasing there, such as Amazon in addition to VMware. In 20 years, those markets get increased their shares in the world economy and are the cause of about 47 percent in the world’s gross home product.

Focused Towards Those Blue Chips

Investors sometimes claim there’s more safety in having those larger dividend stocks, but they also cost more to buy shares and won’t offer as much in return as they once did than the ones that are smaller or middle of the road in cap size. Those larger companies usually offer a liquidity advantage but still don’t offer a lot of opportunities to see increased dividend yield.

Investor demand has risen so much that those blue-chip stocks are becoming too costly to even consider as options for a diverse and successful portfolio.

Giving Macro Factors More Weight

There’s always about to be plenty of risks with regard to any form regarding investing—it’s inevitable as you'll find emerging markets that supply some intriguing probable – especially involving troubled nations along with possible booms in Europe, the Middle East and Africa. Those regions may provide a large number of international revenue benefits and local operations which might be less of times be affected by macro trends.

For example, the stocks from the European market aren't becoming valued as highly due to current crisis which in turn causes doubt for buyers. But there is still a chance to find some stronger companies that offer dividend payments in that part of the world that might provide some potential gains that can help your portfolio.

CHAPTER 14: TAX IMPLICATIONS

It is said that two things in life have absolute certainty: death and taxes.

When you are an investor, you have to be double-careful about your taxes, because each type of investment in your portfolio might be taxed differently.

Unfortunately, taxes are not one of the strong points of dividend investing. In fact, this type of investment is disadvantageous from two tax-related points of view.

The first one is connected to the fact that you will be double-taxed: once through the corporation tax applied to all the earnings made by a company (which will consequently lower the amount of money available for dividend payments) and the second time when you have to pay income tax on your received dividend payments.

Tax rates vary a lot from one investor to another, according to everyone's specific situation. In some cases, you might be able to legally reduce the taxes paid on dividends by using the so-called "tax-sheltered accounts" (IRAs, Roth IRAs, 401k accounts, and so on). It is, however, very important to discuss this with an accountant and see if this is your particular situation.

Furthermore, it is important to note that if a company does not pay its retained earnings in the form of dividends, they still have the option to buy back the shares you purchased from them. In this case, you might be better off selling the stock back than receiving dividends, because this way, you will not be paying as much in taxes. Again, however, this varies from one situation to another, so it is not a generally accepted rule of any kind.

The second tax-related disadvantage of owning dividend-paying stocks is connected to the fact that sometimes, these companies will tap investors. This usually happens when they need to raise cash (or when they want to raise fresh equity). When this happens, you might find yourself in a circling situation that makes you receive a dividend payment, and then you are asked by the company to pay cash in a rights issue. Consequently, you send the cash back to the company for further reinvestment, but you are faced with a tax wedge that is completely unnecessary.

Dividend-paying stocks are frequently associated with exchange-traded funds (also called ETFs). These funds collect the dividend payments on behalf of the investors, and then disburse them accordingly.

There are several disadvantages associated with this practice. On the one hand, these funds handle all the organizational matters of your investments, making it relatively easy for you to manage your portfolio.

On the other hand, this also means that ETFs will charge a fee for their services (which is normal, but not necessarily less annoying for investors who want to see higher profitability for their investments.

Furthermore, the timing of a dividend payment that goes through an EFT first might be delayed as well. Depending on the ex-dividend date, on the record date, and on the payment date set by the ETF you may or may not receive your dividend payments.

Different ETFs have different rules and fees, so it is quite important for you to analyze the ETF both from the point of view of the type of companies in it and from the point of view of the expense ratio (which shouldn't be higher than 0.50%).

Fees are quite unavoidable when it comes to dividend investing, but some ETFs might be better than others, for different people. This is why it is extremely important that you run an analysis that suits your particular situation and that you don't buy stock in a dividend-paying company just because you "heard" it's a good move.

Clearly, dividend investing shows a pretty good array of benefits. As mentioned before, one of the most important ones is the fact that this type of investment is frequently safer than others.

Unfortunately, "safe" is usually at the other end of the pole with "skyrocketing" - so you shouldn't expect your income to simply boom as a result of making dividend investments. Yes, they can definitely add to your portfolio, and yes, a collection of good dividend investment options can definitely help you boost your income.

However, you should not expect **The Wolf of Wall Street**-type of income growth.

Most of the dividends hold at about 2-3% in terms of yield. This means that if you invest $250,000, you will only see a maximum of $7,500 in dividend payments every year.

If your investment goal is retirement, that might amount to a considerable sum of money over the course of a couple of decades.

However, it is important to know that the safest way to withdraw your investment money for retirement includes not touching the principal (the main investment you made).

If patience is your strong suit and you are using dividend investing in combination with other types of investment, the situation is far different, and dividends are a very good choice. Yet, if you are in a rush to make a fortune, this might not be the best solution for you.

Dividend investing is by no means an easy way out of financial worries. But then again, nothing is, except winning the lottery or accidentally striking a gold mine and buying a low-priced stock that will storm into a very good sale in a relatively short amount of time.

The absolute golden rule to successful investments is making sure you don't put all your eggs in one basket. This means that you should resort to a variety of types of investments in a variety of businesses and industries.

The remainder of this book is dedicated to helping you find those precise dividend investment options that provide you with all the advantages with the least of the disadvantages as possible. Of course, it is impossible to predict the future - but even so, there are certain strategies you can use to minimize the risk of your dividend investments and maximize their profitability.

It depends on a country's laws how it taxes or doesn't dividends. These laws change too. At some point dividends can be tax exempt, but if country stores up a lot of public debts it may start searching things it can tax and dividends can become one of them.

Another thing you should know is that countries typically sign double taxation treaties meaning that if you make dividends in one country, you only pay taxes on them in your home country in order to avoid being taxed in the country dividends originate and in the country they are paid to. You need to check your local laws and how it related to investment abroad if you are not a US citizen.

Double taxation idea (taxes paid in two countries) should not be confused with the idea of income being taxed and then dividends being taxed. That is also called double taxation. As most companies that have been paying dividends for long years are in US you should know how dividends were and are taxed in US. Below is the chart showing time periods and tax rates on dividends from the early 20th century up to now.

CONCLUSION

Dividend investing may not be as Hollywood-popular as day trading, but that doesn't make it **easy** in any way.

Same as with any type of investment, dividends need all of your undivided attention: they need you to **know** the ins and outs of how they work and the types of profits they can bring into your portfolio. But more than anything, dividends need you to treat them carefully: with the attention to detail of a bridal seamstress adjusting her daughter's dress for the Big Day.

Because they are generally considered to be a slightly safer option, dividend investments are also associated with **rush** decisions based on nothing more than scarce tips, choppy data, and a lack of understanding of how everything works, really.

My main goal with this book was to give you the tools to start your journey into the world of dividends: a world that might not shine bright like the diamonds of Wall Street, but which can shed light over your future and make it feel safer, comfier, and generally, **better**.

What I would really like to emphasize is that dividend investing should not be treated jokingly in any way. Because it generally shows small returns on each share, dividend investing is frequently considered petty or simply **not enough** - but the absolute truth is that using the right strategies will help you make pennies into fortunes.

This is not just an empty promise: dividend investing is part of most investors' portfolios precisely because it makes sense and it because it can provide you with a sense of security that lets you sleep well at night.

Don't get this the wrong way: when it comes to investments, nothing can ever be certain (and this is something I have emphasized throughout this book numerous times). But, compared to other forms of investing, dividends are fairly safer, especially when you play the game by their own rules.

If day trading is all about seeing the light of the next day and making transactions that will eventually strike the golden pot at the end of a fairytale rainbow, dividends are all about **perspective** and long-term thinking.

Focusing solely on stock ownership or trading is never a good strategy - the economic crisis of 2008 has proved this quite well (as I have mentioned it before). Adding safer components to your portfolio will, however, help you create the future you want.

A future where your children have access to better education and a better chance at being successful in general.

A future where you finally have both the time and the money to go out and see the world and its marvels.

A future where you don’t have to worry much because the work you have done in the last three decades to build a strong investment portfolio is finally paying off.

A future where you can wake up every day and smile, knowing that you don’t have to work anymore, and don’t have to feel anxious about your financials.

This is not to say that dividend investing is a magical key to living a happy life - but it can definitely help you build a stable, recurrent, healthy income that will lay the foundation of a better future for you and your loved ones.

Hopefully, my book has helped you put things in perspective, both when it comes to how dividends work and how to make the most out of them and when it comes to their role in an investment portfolio. More than that, I hope that my book has given you hope and a push of ambition. Dividend investing is not easy, but it’s not rocket science either - and that makes it the perfect choice for those of you who are ready to put a bit of effort and see considerable results growing over the years.

If your portfolio were a cherry tree, I hope this book was the seed that helped you understand how to plan, grow, and maintain your tree to reap its fruits when the time comes.

Futures Trading for Beginners

Tony Correra

INTRODUCTION

Today, most traders prefer to trade in futures due to their associated advantages. Trading in futures is quite flexible and diverse. The good news is that a trader can employ almost any methodology to trade. Some traders shy away from this form of trading due to their limited knowledge about futures. Also, others are discouraged from trading in futures because they think that it is difficult. Well, to some extent, this is true. Comparing trading in futures to trading in stocks, the former is very risky.

There are different forms of futures contracts including currencies, energies, interest rates, metals, food sector futures, and agricultural futures. The best futures contracts you will find in the market are briefly discussed in the following lines.

S&P 500 E-mini

Most traders will fancy the idea of trading in the S&P 500 E-mini because of its high liquidity aspect. It also appeals to most investors because of its low day trading margins. You can conveniently trade in S&P 500 E-mini around the clock not to mention that you will also benefit from its technical analysis aspect. Essentially, the S&P 500 E-mini is a friendly contract since you can easily predict its price patterns.

10 Year T-Notes

10 Year T-Notes is also ranked as one of the best contracts to trade-in. Considering its sweet maturity aspect, most traders would not hesitate to trade in this futures contract. There are low margin requirements that a trader will have to meet when trading in 10 Year T-Notes.

Crude Oil

Crude oil also stands as one of the most popular commodities in futures trading. It is an exciting market because of its high daily trading volume of about 800k. Its high volatility also makes the market highly lucrative.

Gold

This is yet another notable futures contract. It might be expensive to trade in gold; however, it is a great hedging choice more so in poor market conditions.

Capital Requirements

The amount of money required to begin trading in futures will vary. Some brokers will require a trader to have about $5,000. However, some would require only $2,000. A trader needs to choose the best broker who is flexible enough to allow them to trade with the little capital they have.

Leverage

Leverage will also vary depending on the type of futures your trade-in. The contract value will also have an impact on the amount of leverage that you will have.

Liquidity

Just like leverage, the liquidity aspects of futures will also depend on the futures you are trading. Accordingly, it is important for any trader to regularly check the respective volumes of contracts before trading on them.

Volatility

Futures are volatile. The advantage gained by using high leverage ensures that a trader makes a good profit with little price changes in the market.

Keeping the above factors into consideration, futures are a good market to trade. A trader can easily day trade with as little as $2,000. The high leverage ratio will also guarantee that huge profits can be earned.

Futures contracts are a type of derivative in which the underlying asset of the contract is paid for in advance of its delivery. Futures deal almost exclusively in commodities though there may be futures contracts in other assets such as currency. Futures are generally traded on all major stock exchanges around the world. Therefore, futures are not just limited to one specific exchange.

Since futures deal with assets whose price fluctuates according to market conditions, keeping open positions for a longer period may expose investors to sudden market fluctuations. For instance, oil futures tend to be the riskiest of all.

Since day trading implies opening and closing positions on the same day, investors can avoid the ups and downs that come with leaving positions overnight. Also, futures are often traded after the close of markets in the United States. That implies that fluctuations in Asian markets will have a direct impact on futures traded in the United States.

So, if oil futures fall during trading in Asia, an investor in North America may wake up to an unpleasant surprise. By cashing out at the end of the day, day traders can ensure that there will be no surprises at the beginning of the next trading day.

Advanced day traders may choose to keep positions open overnight. However, derivatives are the riskiest type of investment vehicles. This is why investors need to be clear on the advantages and disadvantages that come with dabbling in these markets.

Chapter 1: Futures and Micro Futures

Brief History of Futures

In the 1840s, Chicago was becoming the mecca of the commercial exchange with railroads and telegraph lines connecting through it. In 1848 the Chicago Board of Trade was formed which gave birth to the futures contract. The very first futures contracts were created for commodities, specifically agricultural commodities.

If you have ever read about futures the typical story-line about them is that they were created to help farmers hedge against the price-fluctuations of the crops that they produced. Futures can be a great way to hedge market-specific risk and they can also be used for regular trading and speculation. Futures are a leveraged product which can help traders reap huge profits, but also carries significant risk.

The first futures contract that was ever traded was for corn. After that, it was followed by wheat, soybeans, cotton, cocoa, orange juice, sugar, pork cattle, and many others. Contracts for other products slowly began to develop. By the 1970s futures trading began to penetrate other markets.

The Futures Contract

The underlying asset for a futures contract could be stocks, commodities, currencies, bonds, and other instruments. The terms of a futures contract are standardized in quantity and the delivery date. The exchanges facilitate trading between buyers and sellers. In order to trade futures traders, they need to obviously put up cash, which is commonly referred to as margin in futures trading. A proper margin must be maintained for the life of the trade.

Margin

Traders need to have a sufficient margin in order to trade futures. This will usually depend on the kind of future that is being traded and how many contracts. In order to fully understand the margin, there are 3 different types of margin to understand.

.Clearing Margin

.Initial Margin
.Maintenance Margin
.

Clearing Margin

Clearing Margin is money that is required for brokerages and institutional firms to have on hand to complete futures transactions with their clients. It is a form of capital protection for brokers to have in order to ensure client trades are executed.

Initial Margin

The initial margin is the amount that is required to execute a futures trade. This amount is typically set and facilitated by the exchanges themselves. The real exposure of the trade can be greater than the initial margin. If the loss of trade becomes greater than the initial margin, it may prompt a margin call by the broker. If a broker issues a margin call, traders are expected to post margin to bring the account back up that day. The majority of futures accounts are “marked to market” daily by brokers. This means that futures contracts are re-evaluated at the end of each trading day. The profit and loss are added and subtracted from the margin on a daily basis.

Maintenance Margin

The maintenance margin is the minimum amount of cash a trader must maintain in their account to keep a trade open for a futures contract. If the net value of the account falls below the maintenance margin, this will prompt the broker to issue a margin call. Once a margin call is issued the trader must post more funds to bring the account value above to the minimum.

Settlement in Futures

When a trader enters into a futures position he or she has 3 different options as to how they can settle the trade.

Straight Cash Settlement
Regular Closeout
Expiration
Physical Delivery
Straight Cash Settlement
Regular Closeout

This is the most common closeout. A trader simply closes out their futures position at the current market price. A lot of day traders use a regular closeout and typically don't hold long term positions up until expiry for futures.

Expiration

The expiration date of a futures contract is when that futures contract stops trading and gets the final settlement price for that specific period. Most brokers typically expire a trader's position by closing their trade out and giving them the option to re-open it for the new contract month and at the new contract price.

Physical Delivery

In today's day, physical delivery is very uncommon. Less than 1% of futures contracts actually take physical delivery of the underlying asset. If it does happen, the amount specified in the contract is delivered by the seller of the contract to the actual exchange. It can happen with commodities, but it's very rare.

Let's say for example you had 1 contract on wheat futures. The standard contract size for wheat futures is 5000 bushels. When the contract expires you can take physical delivery of 5000 bushels of wheat. Even though most brokers will only do cash settlements, it is worthwhile to note that there is a very small percentage that takes physical delivery. I don't know about you, but I prefer cash over wheat any day.

.

Different Types Of Futures Contracts & Codes

A futures contract can technically be created on anything. All you need is two different counterparties to create the transaction. They don't necessarily have to happen through the facilitation of exchange. It is best to trade futures that are facilitated and standardized by an official exchange. Since futures are a standardized contract they have specific symbol structure and abbreviations. Futures contracts can be traded on the following markets.

Agricultural
Currencies

Equity Index
Financial
Meats/Dairy
Metals
Softs
F= January
G= February
H = March
J= April
K=May
M=June
N=July
Q= August
U=September
V= October
Z= December

Let's take the following example. Let's say you wanted to view the current price of Natural Gas futures for this current month (January) and the year (2016).

The symbol code for this would be NGF6.

NG = symbol abbreviation for Natural Gas (symbol abbreviations can be found at the link above)

F= is the current contract month

6= the last digit of the 2016 expiration year

Getting familiar with how contracts work is important before beginning to trade them. It is also very important to remember when certain futures contracts expire before actually beginning to trade them. Futures contracts are a very risky trading instrument but can be the fastest and most liquid instrument to trade. Futures contracts tend to have great liquidity, low spreads, and predictable volatility.

How to trade futures

The safest way to trade a futures contract is with Stop-Loss orders. They are just what they sound like - instructions to staunch the bleeding at a predetermined level. They can also be used to lock in profits so Stop-Loss orders are good to have in an investor's toolbox.

Stop-Loss orders are placed at the same time a trade is entered. For instance, take Frozen concentrated orange juice contracts, Dan Aykroyd was waving around for sale at $1.42. The price would eventually fall to 29 cents. That would spell ruin for anyone buying those contracts, as it did for Ralph Bellamy and Don Ameche. But if they had bought Aykroyd's contract with a stop-order of $1.40 they would have parachuted out of the position automatically when the price fell below $1.40, saving most of their fortune.

On the other hand, if the price rose to $1.50, Bellamy and Ameche could move their original stop-order from $1.40 to $1.48 and insure they would profit by at least eight cents should the price of frozen concentrated orange juice begin falling back down.

Of course, safety in investing often comes with a price tag. Using the example of a stop-order at $1.40 let's say that the price dropped briefly to $1.38 and then shot quickly up over $1.50. Those profits will not be padding your bank account because you are automatically moved out of the contract as soon as the price hits your Stop-Loss order limit.

Never cancel a Stop-Loss order once you place it. You initiated the order - hopefully - as part of a sound investment strategy and you do not want to bid it farewell due to an emotional reaction to later events. And never change your position in a market without sound, rational motives. If you are the type who likes to work without a net you can avoid using Stop-Loss orders but always realize that you can lose significantly more money trading futures than may sit in your account.

The reason a Stop-Loss order is critical is the margin call. Since you are investing only a small percentage of the value of the contract you must maintain a minimum amount of money in your account, called the maintenance margin. If the price of the commodity tumbles below that level a margin call is issued for you to bring the amount of your account back up to its initial level. If a margin call is issued you must pay up immediately or the brokerage has to right to liquidate your entire position to cover the losses. That is why people were jumping off buildings when the stock market crashed in 1929.

As with your entire investment portfolio diversity can be the key to minimizing risk in trading futures. The best traders in the world limit their position in a single commodity to between three and five percent of their trading capital. You should certainly do the same. Build positions in as broad a selection of markets as you feel you know. That may include positions in corn, gold, crude oil and the Nasdaq for instance. But never enter a market without judgment to support your move - do not try to build a diversified futures portfolio for diversity's sake.

When searching for new markets to flesh out a portfolio look beyond the big exchanges like the Chicago Board of Trade or the Chicago Mercantile Exchange and investigate other exchanges where you can take on much smaller contracts - as much as 80 percent smaller. This way you can ease your way into the vagaries of commodities. You can also engage in paper trading (using make-believe trades and following real-market results for some time) if you find that way of learning about new investments helpful but it is never like trading with real money.

Different Types of Securities

There are numerous types of securities out there. In finance, we define security as a financial asset that is tradable. This means the financial asset can be traded, bought, or sold, at the financial markets.

Securities are crucial for the global financial system. They are financial instruments that are created to afford their owners a variety of options. This means anyone with a financial instrument can sell, purchase, hold, assume or relinquish ownership, and so much more.

Certain securities are traded more than others. Day traders generally prefer certain securities. These include stocks, currencies, and contracts for difference. Others are futures contrasts like commodity futures, currency futures, interest rate futures, and equity index futures, among others.

Securities

Securities are financial instruments that are traded on exchanges around the globe. Some of these popular exchanges include the London Stock Exchange, New York Stock Exchange, and exchanges in cities such as Hong Kong, Tokyo, Paris, Sydney, among others.

Some securities such as bonds and other fixed-income assets are traded across the secondary markets. There are millions of individuals around the world who hold various securities, especially stocks, bonds, and others. Other entities include exchange-traded funds or ETFs and mutual funds.

Before security is made available to the public, it has to be vetted. Large firms and corporations that wish to list at the stock market to raise money for different purposes have to be assessed by the regulator. In the US this regulator is the SEC or securities exchange commission. The stock and bond markets are also referred to as capital markets. Companies that need to seek funds from the public list at the markets so that individuals and institutions purchase their stocks and then trade them back and forth whenever they want.

Large companies have to liaise with investment bankers and underwriters to help in the preparation of listing their securities at the markets. These securities could be bonds, stocks, and so on. The investment bankers will generally examine the company's financial position and the amount it intends to raise. It is based on this that the firm will likely recommend the number of shares or securities to be issued and how to approach the entire listing process.

Securities

Stocks and bonds are generally the most common and best-known types of financial securities available. They are also the most commonly traded securities together with a few others. However, they are not the only financial instruments traded at the capital markets. We also have options, derivatives, indexes, currencies, warrants, and debentures, and even US Treasury securities.

All these securities have a few things in common. They all carry a certain value that makes them admirable to both traders and investors. This is the reason why they are always trading in the markets. However, the risk profiles of these securities vary greatly. Different traders and investors have different risk appetites. This is why the choice of security to trade or invest in varies.

Take bonds and stocks, for instance. Stocks carry a higher risk level compared to bonds because of how they respond to market fluctuations and the general economic state. Bonds are a lot more stable even though the income they provide is considered fixed.

Bonds

Another popular security that is common among day traders is the bond. Bonds are ideally a form of investment where investors put their money in debt, either public or private. Therefore bonds are largely considered to be instruments of debt.

Bonds are also known as debt securities, so a trader who deals in bonds is purchasing a debt instrument. Compare this to traders who deal in stocks which are essentially units of ownership of a listed company.

Companies or organizations that issue bonds often do so to raise money for a certain financial obligation. For instance, governments may issue a bond to expand or improve the local infrastructure while companies do so to expand into new markets or sometimes even to come up with a new product line and similar ventures.

Banks also issue instruments similar to bonds. These are known as certificates of deposit. Banks issue these to receive funds they need most to lend to their customers. Investors or buyers of certificates of deposit often received a certain fixed rate of interest for their investment. Certificates of deposit are short-term investment tools used by banks to raise revenue for their operations.

Stocks

Stocks are by far the most popular form of the security sold and purchased by both traders and investors at the markets. There are different kinds of stocks, such as ordinary shares. These are sold to the public by the parent company through the stock market. Stocks from very successful companies that are profitable over the years are referred to as blue-chip stocks. We also have internal stocks as well as niche-specific stocks. Common stocks transacted regularly at exchanges are also known as equities. The reason why stocks are by far the most popular sort of security traded is that they have the highest return. Stocks on average have a return of 9.2%. In comparison, bonds have seen a return of about 6.5% within the same 50-year period.

Currencies

Trade-in currencies is sometimes referred to as Forex or foreign exchange. It involves the purchase and sale of currencies at an exchange. The main aim of currency trading is to make a profit. The gist behind currency trading is the fact that currency prices are always fluctuating and based on these fluctuations, traders can capitalize and earn a profit.

There is a reason why some day traders prefer trading currencies. One reason is that the currency market is the largest market in the entire world. This market has a turnover of $2 trillion every single day. This is massive even when compared to other large securities markets such as NYSE.

Options and Derivatives

Another common type of security is a derivative. Derivatives are financial securities whose value is directly related to an underlying security. This means the price is derived from the price of the underlying asset and hence the term derivative.

A good example of derivatives is an options contract. Equity options contracts are contracts between a buyer and a seller regarding an underlying asset. The asset is most cases are most often stocks. Not many retail traders deal in options, but numerous professional traders trade in options regularly. Others include investment firms, commercial and investment banks, hedge funds, and other companies that need to balance their portfolios and so on.

At the most basic level, equity options simply contract that award buyers a right to sell or purchase underlying stocks at a certain price and within a certain period. It is important to note that this is a right but not an obligation. The seller, on the other hand, is obligated to sell should the buyer exercise their right. Beginner and novice traders should generally stay as far away from derivatives as possible because they are extremely risky.

What and Where to Trade

Almost every commodity that one uses in one’s daily life and major investment areas are covered by futures contracts at exchanges across the globe.

Futures markets can be broken down into groups: metals, stock indexes, grains, energies, currencies, interest rates, etc. You can select specific commodities, periods, and contract sizes to trade.

Before you enter into trade there are several key factors that you should look at besides the trend and trade setups and they are:

Volume:

Before you enter into a trade it is important to check the volume of the contract. Volume is the number of contracts traded daily. To calculate the volume of a particular day, you have to add only the number of long contracts for that day and not the short contracts. Remember, the futures market is called a net sum zero games. In other words, for every winning trade, you have a losing trade, and with every trade, you have someone buying and someone selling a contract. Markets with a high volume give you the chance to enter and exit a trade at the levels of your choice. If the volume is too low, no one may be able to take the other side of your trade. This means that you are likely to get poor execution on your orders.

Margins:

When you enter into a trade, the exchanges will require a margin to be paid as your insurance that you will fulfill the terms of the contract. The size of margins can differ substantially from one commodity contract to the next. For example, an index contract margin like the S&P 500 can be as high as $25 000, whereas some of the grain contracts can be as low as $400. The amount of margin depends on the size of the contract and the volatility of the commodity. Make sure that you have enough money in your trading account to cover your margin. If your contract position makes a profit, you will get back your margin plus your profit. If your contract position is making a loss and the loss exceeds the size of your trading account, you will get a call from your broker requesting you to replenish your account with more funds immediately to maintain your trading position. This is called a margin call.

Volatility:

When the price of a specific commodity is very volatile and is rapidly moving over a wide range every day, your trading account could be wiped out very quickly even if you are right about the long-term trend. You have to study the historical volatility of a commodity before you decide to trade and then decide if the volatility suits your risk profile. While some commodities may have high open interest and volume, good money management may suggest that you limit your trades to other commodities with less volatility. In other words, you should trade the commodities with a smaller daily trading range.

Open Interest:

This is the number of contracts still open at the end of each day. It is also a good guide for the market's liquidity. Low open interest indicates little trading interest and potentially bad "fills" are very likely.

Principles of futures trading

What actually happens when you buy futures? – is actually one of the most frequent questions in relation to futures trading. The answer to this question can be summarized in a sentence that states: when you buy futures, you are actually accepting to buy products or services that the company from which you bought futures has not produced yet.

In comparison to stock trading, futures trading is much riskier because you deal with products and services that are not yet produced. With such characteristics, future trading is very popular not only among the producing companies and individuals and customers but also among speculators as well.

While stocks or shares are being traded on stock markets, futures are being traded on futures markets. The idea of future markets developed from the needs of agricultural producers in the mid-nineteenth century where often happened that the demand was much bigger than supply.

The difference between the futures markets and futures markets today is that today's futures markets have crossed the borders of agricultural production and entered many other sectors such as financial. As such, future markets today are used for buying and selling currencies as well as some other financial instruments. What future markets made possible is the opportunity for a farmer to be able to participate in the goods with customers on the other end of the world. One of the biggest and most important future markets is the International Monetary Market (IMM) that was established in 1972.

Futures are financial derivatives that obtain their value from the movement in the price of another asset. It means that the price of futures is not dependent on its inherent value, but on the price of the asset, the futures contract is tracking.

One of the advantages of the futures market is that is centralized and that people from around the world electronically are able to make future contracts. These futures contracts will specify the price of the merchandise and the time of delivery. Besides that, every future contract contains information about the quality and the quantity of the sold goods, specific price and the method in which the goods are to be delivered to the buyers.

A person who buys or sells a futures contract does not pay for the whole value of the contract. He pays a small upfront fee to trigger an open position. For example, if the value of the futures contract is $350,000 when the S&P 500 is 1400, he only pays $21,875 as its initial margin. The exchange sets this margin and may change anytime.

The S&P 500 Index Futures

There are three sizes of the S& P 500 index available to trade: S& P 500, E-Mini S& P 500, and the new Micro S& P 500 Index futures.

A one-point change for the major S& P 500 futures is valued at: $ 250 A one-point change for the E-Mini S& P 500 futures is: $ 50

A one-point change for the Micro S& P 500 Futures is: Only $ 5

Before the new Micro contract, the lowest cost S& P 500 Index, the E-Mini contract that trades for $ 50 a point would mean a fluctuation of about $ 250 to $ 5,000 intraday. The often fast-moving E-Mini index contract is far too risky for small traders. The dollar fluctuation value during the day using the E-Mini - was simply too large for small accounts to trade effectively. The good news is that things have changed.

The major S& P 500 futures contract requires about $ 67,000 to trade one contract. and the E-Mini requires $ 6700. Now a Micro S& P 500 trader can trade intraday with a margin requirement of about $ 670. It’s a game-changer. For the first time ever, a small trader can afford to trade the S& P 500 Index or any of the other 3 new Micro Index futures.

Chapter 2: Day Trading: Future, Micro Futures vs Stock

Advantages of Micro Futures over Stocks

Lower capital requirement: Account Minimum as low as $ 2,000
Lower margins: Intraday: As low as $ 50* Typically: about $ 650
Lower commissions: As low as 25 to 85 cents for the S& P Index (each side.)
Lower Risk: Fluctuations only 1/ 10th the size of the larger contracts.
Liquidity: Instantly fills with minimum slippage * higher minimum account values may be required

Day Trading Experience

The good news is that it can be whatever you want it to be. The bad news is that most day stock traders don't succeed. The only surveys I've seen on this are cursory; they are mostly anecdotal and short on facts and/ or have very small sampling rates, thus are not likely to be very accurate. The best educated guess is that about 85 to 90% of day traders fail over a two year time period. I would say about that about half of those tried to day trade without really being prepared. Even if you do prepare, there are no guarantees at all. You may give it a go and find out it isn't a good fit for you. If you are extremely risk averse or you are expecting an easy get-rich-quick scheme, just close this book and go find something else that will suit you better. This isn't for everyone.

There are many different kinds of day traders. Let's explore some ideas on how you can construct a plan around your own expectations and experiences and maybe even discover a suitable meld for your personality. The most common perception of what a day trader is – would be a person who takes high risks and that lives by his or her wits outsmarting the stock market enough to score a high income with regularity - a real high-speed white-knuckled trader who gets rich quick. You might imagine they have supreme self-confidence and are able to succeed in a business where most people fail. This image is similar to a high stakes poker player, or sports bettor – or a horse track wizard who has figured out his system that makes money regularly. This image of day-trading is absolutely false. It's as false as James Bond with a beautiful woman on his arm, always doubling up at the roulette table in Monte Carlo, winning, and leaving a $ 10,000 tip for the croupier.

You will very likely have some days in day trading that are absolutely fantastic but it has a lot more to do with your preparation and methodology than it does with luck. The mission of this writing is to help you find a realistic way to make a good second income. Believe me when I tell you, that you do not want to become an adrenaline junky that is stuck to a computer screen all day with a finger glued to a laptop hot-key ready to make money. I can tell you that is a hellish existence with no security and it would probably make you miserable, even if you did make money at it for a while.

Logical and calm approach to trading.

Day trading is not gambling or like buying lotto tickets – it is much more controlled and calculated. It is a business, your business – and should be treated as such. You'll need the right tools, education on the subject, experience, and an amount of practice and dedication. You will likely have to try several approaches before you find the one that works for you. That sounds a lot like almost any job, doesn't it?

It takes a master of courage and self-confidence to start your own business. Day trading has a set of unique challenges. Contrary to the popular myth, you won't have studied for months or years to try and morph into a market maven, nor will you have to be a math whiz or develop a huge ego to become a trading winner. You'll easily be able to understand all you need to know to open your account and get set up. Everything you need for that is in this book. This is the easy part.

There is an old saying among traders that "hope is not a strategy." This means that you will have to be aware of - and be the master of your emotions when trading.
Day-trading requires a particular mindset that takes a little time and practice to develop. Trading will require your brand of self-discipline if you are to become successful. In the section ahead on trading psychology, I'll discuss avoiding one of the most common but least talked-about mistakes called

apophenia.
Many people who approach day-trading expect it to be a technical task with fixed rules that consistently produce winning trades. There is no such thing in existence. If there were, millions of people would be learning it and quit their jobs.
Look around; you can easily see this is not happening. I'm appealing to your common sense: If that is all it took to be a successful trader, you could just simply set up a computer to do it while you go on a perpetual vacation. It would be like printing money.

The markets are fluid and ever-changing. We have no control over the scores of factors that influence them. Some patterns repeat over and over again but we cannot with certainty, predict the timing, amplitudes, and the half-life of them. You will, however, learn to recognize many of these patterns and how to evaluate them in the context of a given day's trading. Even then, you will have losses; there is no way for any trader to avoid losses. Successful traders learn to manage and limit them. To have a trading loss is the sign of a failed trade, but is not the singular gauge that defines the trader. You, like all traders - will have losses, many of them, and you will learn to view them as a part of your new business.
The goal here is that you learn to be a profitable and satisfied trader, to concentrate on enjoying the activity - all while making money without having to live in fear of losing it. Once you earn this status, it will be possible to scale-up in modest increments, so you can gather more profits from the activity.

When I tell you that the best trades in day-trading might be the ones you never make – this is just another way of saying how very important patience and experience will be in your trading. Another bit of seemingly paradoxical advice is: Before you can win, you must first learn to lose. There is a lesson from Sun Tzu's book: The Art of War: "Do not fight the battle you cannot win. Sometimes we need to lose the small battles to win the war." I will revisit this idea in the chapter ahead on money management and trading psychology.

Be a Modern Trader

The first stock index futures contract traded was the S& P 500 in 1982. Only two years after this product was introduced, the daily traded values exceeded the entire value of all stocks traded each day. It proved to be the most popular investment product ever introduced on the futures exchange. Fifteen years later in 1997, the index value had grown so large that the money required to trade it was preventing many traders from using it, so the E-Mini S& P 500 was introduced, a contract 1/ 5th the size. Over time, even the E-mini grew so large that the deposit money (the margin deposit required to trade it) - was again, beyond the reach of many investors. Large swings in value and high-dollar draw downs worked against a beginning trader.

Twenty-two years later - in May of 2019, the Micro S& P 500 was introduced. The four new Micro Futures are now so affordable that many people who never had money enough to trade the Index futures – are now able to easily trade them. These new Micro Futures set records from the very start - as the highest volume new products ever introduced in the futures market – a clear indication this is an idea whose time has come.

Disruptive technology in internet-and-mobile-device advancements has completely changed personal investing. Two weeks ago, I was day –trading while in the waiting lobby at my doctor's office. It was a lot more fun than reading year-old dog-eared magazines and wondering what diseases the previous readers might have had.

During my twenty-minute wait, I traded the NASDAQ 100 Micro Index. There were two very quick trades in those 20 minutes. On the first, I lost $ 6.00. (Yes, $ 6.00. That is not a typo. I'll explain - keep reading.) Five minutes later, I entered the second trade. I had just paid the receptionist at my doctor's office a co-pay of $ 20.00, so I sort of played a game with myself. I thought how nice it would be to make $ 26.00, enough to make up my six dollar loss and to profit enough to cover my co-payment. When my name was called to be examined, I was $ 8.25 ahead, so I hurriedly put in a stop order to exit the trade at even money, then turned off my iPad and cellphone and went to the exam room. Forty-five minutes later, after my exam, I was in the parking lot in my car and turning my iPad back on to see how my second trade went. I knew the worst thing that could happen was that I got stopped out for even money, so I had no dread or fear of my trade. Voila! I was up 9.25 points, which was (9.25 X $ 2) = $ 18.50 and I immediately closed the trade. My profit (excluding commissions) during my ‘doctor visit’ was $ 12.50. The commissions for both the trades totaled about $ 5.00, so after commissions, I made a whopping $ 7.50, not enough to cover my copayment but enough for a Wendy’s double cheeseburger for lunch. The fact that I made lunch money wasn’t the point.

If I’m honest with you, I hesitated to put this little paragraph about my ‘doctor visit trading’ in this book. It probably seems petty to talk of two trades that net $ 12.50.

I am supposed to be writing a book about making money, personal income, and be all solemn, serious, and be a dignified personal finance author. So why do I even mention a chump-change trade that amounted to lunch money? I’ll tell you why. While everyone else in the waiting room watched the mindless soap opera on the waiting room TV, I tapped my finger on my iPad’s gorilla glass and made money. For me, this is magic! That’s exactly the kind of statement that always makes my wife roll her eyes at me.

“Any sufficiently advanced technology is indistinguishable from magic.” - Arthur C. Clarke.

I decided to leave the story in this chapter and even placed it near the front of the book for two reasons. First, the little story illustrates the small amount of money you have to risk to learn how to trade stock indexes. (In all of trading history, this has never before been possible.) Secondly, and most importantly, because I think it helps to share a tone and attitude that is so often missing in this type of book. If you can maintain a level of enjoyment and enthusiasm in learning to trade these new Micro Index futures, you will learn faster and even increase your passion for making some profit at it.

My little ‘doctor’s office trade’, illustrates how the amounts of money can be kept very small while you learn. Keep the stakes very small in the beginning. Don’t’ worry about the money. You should explore it. Have some fun with it; give yourself a chance to enjoy it. The goal is to learn a new skill so that you create more income. As you learn to trade using Micro Index futures, always remember you are also training your attitude and approach. If you are always tense and serious, fearful and greedy, and especially upset or angry – you will never enjoy trading – and you will not do your best. World-class coaches for professional athletes are always teaching their clients to enjoy the game, learn to play relaxed for the best results.

High Leverage

At the time of this writing, the DJIA is trading 10,000 points higher than it was just five years ago. Of course, these new contracts didn't exist then, but if they had - that 10,000 point gain would have represented an increase of $ 5,000 for one of the new Micro Futures DJIA contracts. The initial margin deposit to buy a Micro Futures for a long-term hold is only about $ 650. A $ 5,000 return would have been a gain of 5,000/ 650 or about 769% in only five years.

So why are the returns so high? Because of leverage. Right now, a $ 650 margin controls equity value in the Micro S& P 500 index of $ 15,120. That is a ratio of 23.26 to 1.0.

To get the value of an S& P 500 Micro contract, simply multiply the quoted value times the value of 1 point. Example: If the Index is quoted at 3024.50 X $ 5 = $ 15,120.

Things can move fast in a highly leveraged futures market but there are ways to keep the risk down to something small investors can afford. The value of a Micro DJIA average only changes by 50-cents a point. It is quite common for the DJIA to vary by 50 to 300 or more points a day, a Micro futures DJIA value might fluctuate from $ 25 to over $ 150 per day. In your day-trading, your job will be to carve out a profit from a part of that move.
Why just a part? Because you can only know the direction and amplitude of the move with the genius of hindsight. It is always easy, after the fact, to see what would have worked. Here's something you need to learn right away: I can tell you now that beating yourself up with hindsight is a useless thing to do. It's entirely counter-productive because such a reaction is based only on the hypothetical. You can study what happened and learn from it, but getting upset with yourself will make things harder, not easier. As a trader friend once told me, "You can't beat yourself up over should' a, would' a, could' a. You need to be your own best friend."

The DJIA is comprised of 30 selected large-cap stocks. It is a weighted average. Anyone of those thirty is a large enough part of the average to make a significant change. The other three Micro Futures are comprised of hundreds of stocks, so they are called broader averages, than the narrow

DJIA. This fact means the strategy for trading the DJIA can be very different than the other indexes.

A Giant Advantage

Futures trading, unlike stock trading, offers a highly leveraged and more risky opportunity. To trade a Micro Futures S& P, the current day trade margin is about $ 650. On the day of this writing, the S& P index was up about 19.25. Remember the multiplier for the Micro Futures S& P is $ 5, so a long contract today went up by an amount equal to $ 5 X 19.25 = $ 96.25 profit for the day. With a margin of $ 650, that is a 14.8% gain in one day! Never forget this trading is risky and had you bought a contract that went down 19.25 points, you would have lost $ 96.25 if you had held it all day. You always have the right and ability to close a trade at any time you wish to avoid accumulating large losses. You can exit a trade with one mouse click at any time during the trading day. You must learn to keep losses small and manageable. In day trading, you always close out a trade before the market closes. You do not hold any overnight positions, which is why it's called day trading.

A New Frontier for Small Investors

To learn to trade, you don't need to know this history of trading. I only bring this up here to illustrate how recent and how radically wonderful the changes that now allow us to easily trade instantly and inexpensively are. In 1987 a retail stock brokerage would charge about $ 75 to buy 300 shares of stock. Now we can buy an unlimited number of shares for under five dollars and get an instant fill – even for no commission charge at many brokers. Those same 1987 brokers would charge from $ 35 to $ 100 to trade each side of a futures contract. You can now trade a Micro Futures S& P 500 for less than a dollar per side, and get a fill on your smartphone in about 2/ 1000th of a second. This is the sort of service that modern traders demand. Technology has opened a new frontier for investors and the new micro futures are front-and-center on that leading edge. You have an unprecedented opportunity. I want you to take it and run with it.

Chapter 3: Futures and Micro Futures Contracts

Contract Specification Sheet

The contract specification sheet is originated from the governing exchange where the contract is traded. For all four of the Micro Index Futures, this is the Chicago Mercantile Exchange or CME, sometimes called 'the Merc.' The Contract Specification Sheet is often called the 'contract spec sheet' for short, sometimes just 'spec sheet.'

The CME website is an excellent source for a great deal of information and I recommend you use it (or your broker's help services) to look up information. The great thing about going to such an official website (CME.com) is that you don't get bombarded by ads, the information is 100% reliable, and the data and text are not biased by any trading opinions or other subjective material. All four of the Micro Index futures are at the Chicago Mercantile Exchange (CME.)

Month Contracts Traded in Micro Futures

The Index Micro Futures have four monthly contracts: MAR, JUN, SEP, and DEC and there are always 4 consecutive quarterly contracts listed. If you are used to stocks, this concept may be new to you. Stocks don't "expire." Futures contracts are all temporary and all have expiration dates, last trading day dates (LTD), and a final notice date (FND.) Each contract is named for a month and a year. Normally, you will trade the most nearby contract available because it is the one with the most liquidity, volume, and activity. Know that the convention is for you to always trade the most nearby. You must be aware of what is called the "roll date." Since (unlike stock trading) futures contracts expire, near the contract's expiration date, you must migrate your trading to the next contract – for it is about to become the 'nearby' contract.

Futures contracts expire on the 3rd Friday of the contract month, so you can figure it out yourself by counting back 8 trading days from there (excluding holidays.) There's nothing to stop you from moving out to the next contract a few days early, it usually won't make much difference. This is a common practice.

Which Contracts Should You Trade

If you are trading the micro DJIA, you should know that an event such as an earnings report might have the potential to boost or drop the average quickly. For example if some earnings report or other bad press should cause Apple stock to drop or rise quickly by $ 10 a share, this can move the DJIA as much as 40 points or more. You may even make an event like this a part of a trading strategy. If you know that a stock like Wal-Mart, AAPL, or any of the 30 have earnings reports out on a certain day, you will want to consider that if you are trading the micro DJIA index. Not considering this could result in you being blindsided. At the time of this writing the few stocks are:

.Apple
.Microsoft
.Johnson & Johnson
.JPMorgan Chase & Co.
.ExxonMobil

Regular Trading Hours & Globex

Of course the real drive time for trading is the regular hours of the NYSE, which is 9: 30 AM ET until 4: 00PM, Monday – Friday. The Micro Futures trade virtually 24/ 7 via Globex:

Just so you know: The NYSE in New York posts all notice times in the Eastern Time Zone. The CME is in Chicago and on Central Time Zone. CME posts all time in Central Time. When converting to your local time, you will need to be mindful of this.

Typical Daily Range of an Index

It makes perfect sense for you to get an idea of the typical daily range for the index you are trading. It doesn't help much to look up a long (for example 5 or 10 years) average. Because things change so fast, you should look at the index in your trading software charting in real-time and the most recent days. Look at the variations in minutes, hours, days, months, and years. Over time, you will - as you get more familiar with an index – get a better idea of what the typical trading ranges can be.

Chapter 4: Choosing a Broker

Modern Online Discount Broker

Tech support:

It is quite normal if you are new to your broker - that you will have some questions on how to install and operate the software, a.k.a. “The trading platform.” There are scores of training videos, articles, webinars, and written instructions either online / in a manual to help you learn to operate the software. You must open a practice session (paper trading account) so you can familiarize yourself with all operating aspects of the software and to learn about the services your broker offers. Some of the brokers have ‘for fee’ services; my advice is that until you gain a lot of experience, you do not sign up for any of those. You will find more than enough to explore and learn without buying additional services. You should try and find answers to your questions by viewing videos and reading instructions as much as you can. If you get stuck, phone your broker and they will get you going again. As a courtesy, it is the custom that you should be as quick and specific as you can when you phone them for help. Brokers usually have a text chat help service also.

Just in the last year or two, there is a great new way for your broker’s help staff to assist you. It is live “on screen” assistance. This is when you allow your broker to connect to your computer live; they can talk you through while you see what they are doing on your screen. This service requires you have an account and that it is funded before you can get this outstanding service.

Real-Time Quotes Bid/ Ask Prices:

One of the first things you’ll do with your new online account is to build watch lists. You simply put in symbols of stocks and futures contracts you wish to follow and the software will give you the bid/ ask prices, change for the day, the ability to pull up charts for each futures contract, stock, ETF, or Index, and more.

Charting-Trading Tools:

When you view charts, the horizontal axis will be time/ dates and the vertical will display the prices. Begin using bar charts or candlesticks, which display the high, low for various (selected by you) intervals of time, like 1m, 5m, 15m, 30m, 1h, 4h, 1d, 1w (minute, hour, day, week.) If you wish, you may learn more about technical indicators and chart in your software. There are a hundred or more indicators, but four or five of them are used most commonly: MACD, Bollinger Bands, Resistance-Support, Momentum, and so on. Your broker will have professionally made videos you can view free – on just about any subject.

Statements and Trade Confirmations:

Your daily transaction summary, statements, and confirmation notifications are listed in the program and usually you will receive daily email notifications of your transactions. When you enter an order, you will get a 'fill' the moment a transaction occurs – and usually a sounder to alert you also. The 'fill' is the same as a confirmation and gives you time/ date stamp, transactions, prices, and other information.

You will get a summary at the end of each month by email and also your daily statements - but you can get your account status and balance, and a record of your transactions anytime online.

Entering Trades, Buying and Selling:

Follow the instructions to enter trades, you will enter the quantity, price, and the type of order you prefer to use. (Type of orders will be explained in a section in this book.) All trading software will allow you to enter an order, and then to check it again before you SEND it; this is to avoid mistakes – and to avoid accidental trades. Investment Tracking:

There is a section in your trading platform that will always summarize your trades, current valuation of them, and list them in an easy to interpret format. This section is sometimes called a position summary or another similar term.

Research Educational Material:

Every online broker provides customers with many tools that include charts, news items, research material, and more to help you find the information you need. Anytime you need help, you can ask your broker to suggest videos so you can train to use the software's many valuable features. It will be time well spent. You can use your smartphone or another device to watch this material on your convenient schedule. Also, some brokers provide chat rooms where customers can talk among themselves, and this is a way to find ideas and help (but remember a lot of these are just as lost as you might be.)

Money Transfers IN & OUT:

When you open your account, you may mail a check if you wish. Most commonly, monies are transferred in/ out of your account by ACH (or an equivalent) directly from your bank. You can call the account services of your broker and they can help you set this up and answer your questions. Be aware, some banks and/ or brokers charge varying rates for these services (ACH is usually free both ways.) Ask your broker for suggestions, if you need help in finding the best way for your particular needs. Often, banks have ridiculous fees to make these transfers, so be sure and ask 'how much' before you authorize the transfer.

Trading Business Advantages

Work your own hours. Take off when you please.
Be Your Own Boss
Low Capital Required to Start
Set Your Own Goals
Operate anywhere you have internet
No Overnight Positions Means No Surprises
Easy to Learn
Work and Learn While You Travel
PC or Cell-phone Access to Your Business
Get Paid Daily
Work Outdoors or Indoors
A Chance to Scale Up Your Business
Easy Access to Training Material

Chapter 5: The Types of Trade Orders to Use for Index Trading

How to We Make A Profit On The Futures Market

An important thing to keep in mind is regardless of your purchase and selling of future contracts in commodities, the delivery is typically not undertaken by you. The contracts have to be closed before the date of delivery.

Let's assume an example and associate it to a futures contract. You came across a house that is put up for sale in $ 300 000. You think that its value will rise by around 10% in the upcoming year but you kept down a $ 30 000 deposit because unfortunately, you does not have sufficient money to purchase the house right away. As per expectation, the value of the property increased after a year by 10% and is now valued at $ 330 000. You choose to sell the property which will yield you a profit of $ 30 000. Your profit on your investment is 100% because initially, you invested $ 30 000 and sold it with a $ 30 000 profit.

The function of commodity trading is quite similar. For instance, you have done analysis of the corn market and you assume that the prices will rise, thus you choose to purchase the September contract which is currently trading at $ 2.40 per bushel. A corn contract has 5000 bushels. A $ 500 deposit or margin is paid by you as needed by the exchange.

As per the expectations, the price rose to $ 3.40 a bushel after four weeks. Thus, $ 3.40 X 5000 = $ 17000 is the value of the contract now. You earned a profit of $ 5000 ($ 17000 -$ 12000) on the contract which you purchased four weeks ago at $ 12000 ($ 2.40 X 5000). $ 5000 is the return on your investment of $ 500 which is 10% in only 4 weeks.

The profits can also be made while the market is facing a drop in prices. For example, you assume the prices of soybeans will drop from its present point of 5.00 per bushel. In a soybean contract, there are 5000 bushels too. You sold one September contract at the present level. A $ 1000 deposit or margin is paid by you. As per expectations, a significant drop in the prices was experienced after six weeks to $ 3.50 per bushel. Now you decide to avail of your profits and shut your position. Your purchase of the contract enabled you to balance the contract which was sold six weeks ago. Your profit is the difference between the price you sold and the price you purchased back. On an investment of \$ 1000, \$ 25000(\$ 5.00 X 5000) – \$ 17500(\$ 3.5 X 5000) = \$ 7500 is the profit. This means a profit of 7.5% in six weeks.

The most effective method to Make Money Trading Futures

Exchanging fates can help you monitor the danger and contribute to the expansion of a portfolio. Fates contracts apply to agrarian wares, rising and falling as the market interest of things, for example, corn, steel, cotton, and oil change. You can make cash exchanging fates on the off chance that you pursue patterns, cut your misfortunes, and watch your costs.

 # Brokers and Expenses

Financial specialists exchange prospects contracts through conventional representatives just as online agent administrations. Online administrations offer less customized exhortation but at the same time are more affordable, offering exchanges for under \$ 1 now and again. Utilize an online specialist and play out your market investigation to minimize expenses and increment your net addition from exchanging fates. Track all costs, including intermediary charges and memberships to on the web or print productions that help you contribute, to deduct them as speculation costs on your annual expenses.

Significant hints on the most proficient method to make benefit in the fates advertise

Have you at any point needed to figure out how to profit on the fates showcase. It is a fairly high hazard, high reward condition, be that as it may on the off chance that you recognize what you are doing you can profit, even procure a living from exchanging the fates showcase. Before considering going all-in you should initially comprehend the concealed insider facts that are hiding underneath the dinky surface. Too often do you see beginners bounce directly into exchanging fates without first acknowledging what the shrouded gets are.

There are some concealed gets, however, once you realize how to utilize them furthering your potential benefit then you will have the option to take steady benefits from the prospects showcase over and over.

7 of the most significant hints on the best way to profit in the fates advertise

 # Margins and Expiration Dates

Financial specialists exchange fates on edge, paying as meager as 10 percent of the estimation of an agreement to possess it and control the privilege to sell it until it lapses. Edges consider duplicated benefits, yet additionally profit you can't stand to lose. Keep in mind that exchanging on an edge conveys this unique hazard. Select gets that terminate after when you anticipate that costs should arrive at their pinnacle. A March prospects contract is pointless on the off chance that you get it in January yet don't anticipate that the product should arrive at its pinnacle an incentive until April. Regardless of whether April contracts aren't accessible, a May contract is increasingly proper since you can sell it before it lapses yet hold up until after the ware's cost gets an opportunity to rise.

 # Cut Losses

Short Any individual who puts resources into fates long enough is going to buy gets that lose esteem. On the off chance that a specific agreement begins to move in opposition to your desires, firmly consider undercutting and assuming a little misfortune. The option might be trusting that the agreement will ascend in esteem, just to see it fall further. Since each agreement you purchase is with the desire that it will see gains inside your time skyline, stopping misfortunes by selling will expand the arrival that you return to contribute somewhere else, and counterbalance different additions when you ascertain salary venture for your charges.

 # Follow Trends

Fates markets have patterns, much the same as different protections markets do. Items tend not to have a similar unpredictability as stocks, however, it can likewise be less unsurprising. At the point when you distinguish a pattern through thorough research and testing, it speaks to your most obvious opportunity to benefit. The research includes investigating which components sway the organic market of the item that you're keen on. Testing includes making mimicked interests in prospects that you think you see slants in, to see whether a genuine venture would have worked out.

1. Try not to attempt the fates advertise on the off chance that you have no cash.

Many individuals get the possibility that creation cash on the prospects trade is simple and they feel free to put enormous sums on that they can't stand to lose. That is a major NO.

2. Utilize a demonstrated stop misfortune the board framework.

This is the main motivation behind why numerous merchants out there come up short. They toss cash into the fates advertise without pondering what their arrangement is if things conflict with them. Things won't work out as expected 100% of the time. Taking misfortunes are a part of the game, and increasingly like a cost of doing business for proficient brokers. Simply acknowledge it and consistently leave a position on the off chance that it conflicts with you. It is difficult to concede you aren't right, yet simply acknowledge it and get out the exchange. That will guarantee you have cash for the following exchange that presents itself.

3. Know what's going on out there in the economy.

After the worldwide money related emergency, a few nations are doing ineffectively, and there is at present a few monetary standards issues. It may merit your opportunity to discover how the economy is getting along in your general vicinity of the world. In the event that things are not looking great, it is smarter to set aside cash to purchase day by day things before you go gambling everything on the fates advertise.

4. Utilize an expert exchanging stage.

There are numerous great stages you can use to exchange prospects. In any case, there is a darker side to exchanging prospects, where numerous broking houses offer carriage stages, that are more regrettable than inferior. Simply do your schoolwork first and discover what the top dealers are suggesting. These stages ordinarily play out the best and keep customers cheerful. At the point when it is your cash in danger you need to guarantee you have wellbeing and dependability on your side. Generally, there can be radical outcomes.

5. Don't over the investigation.

There is such an incredible concept as making a decent attempt on the fates trade. Regularly the great merchants will discover something that works, and afterward, continue attempting to make the framework and procedure work better. Simply acknowledge there is no sacred goal to exchanging. There is no framework that is going to profit 100% of the time. Acknowledge you will take little misfortunes, and discover a framework that works reliably and stick to it. Keep it near you and use it as your weapon against the market.

6. Think of a present moment and long haul.

Try not to attempt to make sense of what will occur in the fates showcase in the following 2 hours. Indeed, this can profit, however, there are a ton of effective merchants that are making cash long haul in fates moreover. They couldn't care less about the every day variances, or what happens each moment of consistently.

7. Try not to attempt some trick or mystery you read in a book

The fastest method to lose cash on the fates showcase is to go out and attempt one of the mysteries you got notification from a companion or read in a book. These are simply gossipy tidbits and for the most part, don't work. In the event that you are going to test a specific methodology, guarantee you do it relaxed and with modest quantities of cash before going hard and fast. Little tests will assist you in seeing reliable results. You won't profit yet the dangers are little and you won't lose your whole record on the off chance that things conflict with you.

Exchanging Knowledge For Success the Futures Market

 # Greatness is a result of difficult work

Appropriate exchanging information is the way to accomplishment in the prospects advertise. You can go right back to the Bible, and it will advise you about the significance of shrewdness. Adages reveal to us that shrewdness is the rule thing, and to go get insight and comprehension. The entirety of the incredible brokers and financial specialists from the beginning of time took a stab at securing the information important to get world-class. This is the manner by which they made fortunes exchanging the different markets. There is no easy route to turning into a world-class broker.

 # Charts will give you extraordinary data

On the off chance that you appropriately study the value developments and volume on a diagram, they will reveal to you more about what is happening than any investigator, TV character, or merchant. Diagrams are an incredible wellspring of the previous history, with pieces of information to future value developments.

There are a few repeating value designs demonstrated to be effective over numerous decades. My undisputed top choice is the level base example. I have exchanged it effectively for more than 20 years. Cost and volume examinations are totally vital in the event that you need to be a reliably effective broker. You need to pass judgment on awareness, stock, or any broad market by its activity.

 # Do not put together your exchanging choices with respect to feelings

Probably the greatest misstep new brokers, and even experienced ones make, is to be affected by feelings, for example, dread, insatiability, and expectation. One approach to curing this is to execute an effective exchanging plan that accommodates your character. On the off chance that you just pursue flag legitimately from your arrangement, it will assist you with trading just on certainties, and not feelings. Try not to belittle the significance of appropriate exchanging brain science. It is a significant piece of your general exchanging information that will prompt achievement in the prospects advertise.

 # Study and learn as much as you can

In the event that you need to make progress in the prospects showcase, you essentially should place in the time and exertion important to secure the best possible exchanging information. Achievement originates from knowing, and following demonstrated fixed guidelines. The individuals who need information normally surmise, or pursue the counsel of TV characters. This is a sure catastrophe waiting to happen. Fruitful exchanging has nothing to do with karma. Gain from the world's best merchants and financial specialists, at various times. This incorporates William J. O'Neil, Jesse Livermore, and W.D. Gann. Peruse their books. Concentrate their methodologies, techniques, and standards. Execute what you realize into your very own exchanging.

Instructions to effectively exchange

Following an unmistakable pattern is one of the significant keys to making a great deal of cash exchanging the different markets. On the off chance that a market is in an exchanging range, have the tolerance to hold up until it unmistakably breaks obstruction or backing. At that point float along with the market. Try not to avoid the pattern. Make sure to consistently rehearse sound cash the executives. This can be accomplished by deliberately putting stops following you take a position. When the market goes your direction, actualize trailing stops to ensure benefits. You should rehearse sound judgment all throughout the whole procedure. This originates from appropriate exchanging information and experience. You can turn into a reliable victor in the fates showcase or the financial exchange.

Market Orders and the Bid and Ask

Market orders

When you buy stocks, the easiest way to order is to buy or sell stocks at the current best market price. It's that easy. Here is an example: Kowalski, Inc. Available at a market price of $ 10. If you call your broker and tell him to buy 100 shares "in the market", the broker completes the order for your account and you pay $ 1000 plus a commission. I say the moment when there is the best affordable price because the price of shares is constantly changing and getting the best price may depend on the ability of the broker to process the purchase of shares.

In the case of very active stocks, a price change can occur within a few seconds. Often three brokers place orders for the same share at the same time and receive three different prices due to the broker's different capabilities. The transactions of a market order are advantageous because they are processed immediately and you receive your stock without having to worry about whether it reaches a certain price. For example, if you buy Kowalski, Inc. Due to the market order, you know that at the end of this phone call (or visiting the website) you will be sure that you will receive shares. The disadvantage of a market order is that you cannot control the price you pay per share. Regardless of whether you buy or sell your shares, you may not know exactly what price to expect.

Bid and Ask

Whenever the market is open, there are always two prices for any trading stock - a bid and an ask. A **bid** is what people are offering to pay for that stock at that moment; an **ask** is what sellers are demanding in order to sell it. A bid is always lower, an ask is always higher, and the difference is called the **bid-ask spreads**. Bid-ask spreads vary for each stock and even for the same stock at different times of the day.

Limit Orders and When to Use Them

Here's how it works:

When you buy: simply because you like a certain company and you want to receive its shares, this does not mean that you are ready to pay the current market price. You can buy Kowalski, Inc., but the current market price of $ 20 per share is not acceptable to you. You prefer to buy it for $ 16 because you think that the price reflects the real market value. When the stock is highly volatile or drops to $ 16.01, it suddenly drops to $ 15.95. At the next step, you may be shocked to hear. Since your order was limited to $ 16, it can only be processed for $ 16, nothing more or less. The only way for this special deal is when the stock rises to $ 16. However, if the price continues to drop, your limit order will not be executed and may expire or be canceled.

When you buy a stock, many brokers interpret the limit order as “buying at that particular price or better.” If your limit order is to buy a stock for $ 10, you can also be happy if your broker buys this stock for you for $ 9.95. Thus, you will still receive a share at a lower price if you do not get exactly $ 10 because the price of the shares was volatile. Talk to your special broker to clarify the value of the limit order.

When selling: Limit orders are only activated when the stock reaches a certain price. For $ 20 and worry about lowering the stock price, you can place a limit order for $ 18. When you see and hear the news that Kowalski's price is falling, you can sigh and say, “I'm very glad I placed this limit order for $ 18”. However, in a volatile market, the price of shares may exceed the price you specify. It can grow from $ 18.01 to $ 17.99 and then continue to decline. Since the stock price never reached $ 18, it is not for sale. Perhaps you are sitting at home, happy (wrongly) to play wisely while your stock drops to 15, 10 , or fewer dollars! It is best to have a stop loss.

The Day Order versus the GTC – Good Till Canceled Order

Day order:

A daily order is an order to buy a stock that expires at the end of this trading day. When you tell your broker: Buy BYOB, Inc. for $ 37.50 and place a daily order then you mean you want to buy stocks for $ 37.50. However, if the stock does not reach this price, your order will expire at the end of the trading day. BYOB can trade for $ 39 but you don't want to buy it at that price because you don't think the stock is worth it. As a result, you will have no problems keeping stock on that day. Daily orders depend on your preferences and personal circumstances. It may appear to you as if you do not want the specified order to remain outside of today's market promotions. You may want to check the price. In this case, a daily order is an ideal strategy. If you make a transaction and don't specify the time when placing an order, most brokers automatically consider it a daily order.

Good-till-cancelled (GTC)

An order awaiting cancellation is the most frequently requested customer. Although GTC orders are time-dependent, they are always associated with one condition, for example, B. when the stock reaches a certain price. A GTC order only means what it says: the order remains in effect until it is completed or until the investor cancels it. Although an order implies that it can work indefinitely, most brokers have a limit of 30 or 60 days (or more). At this point, the broker cancels the order or contacts you to find out if you want to extend it. Ask your broker about their specific guidelines.

A GTC order is usually associated with conditional or conditional orders. Suppose you want ASAP Corp. shares. Buy, but not at the current price of $ 48 per share. You did your homework on stocks, including value for money, value for money, and so on. I would do it for only $ 36 to buy per share. You choose the best bet and ask your broker to place a "$ 36 GTC order". This request means that your broker will buy stocks when they reach $ 36. Just make sure your account has funds to complete the transaction.

The Terms and conditions of orders are very useful, so you should read the recommendations of your broker. Meanwhile, ask if there are any fees. Many brokers do not charge a commission for T& C orders, because if they result in a purchase (or sale) order, they generate a regular commission, like any exchange transaction. Other brokers may charge a small fee.

For becoming successful with GTC orders you need to know the following points:

Want to buy: In recent years, people have tended to buy stocks without thinking about what they can do to get more for their money. Some investors don't understand that the stock market can be the place for buyers looking for bargains. If you are ready to buy a high-quality pair of socks for $ 16 at a department store, but the seller says that the same socks will go on sale for only $ 8 tomorrow, the same applies if you are an economical consumer with stocks. Suppose you want to buy SOX, Inc. Priced at $ 26, but now it's priced at $ 30. You think $ 30 is too expensive, but you like to buy stocks for $ 26 or less. However, they don't know whether the stock will move at the desired price today, tomorrow, next week, or even next month. In this case, the order of terms and conditions is appropriate.

When did you want to sell: If you bought some socks at a department store and you discovered that they have holes and stock's price starts to unravel then you will be able to get rid of it. You may already own SOX (for example, $ 25), but fear that market conditions may reduce the price. You are not sure in which direction the action will move in the coming days and weeks. In this case, an order to sell shares at a certain price is a suitable strategy. Since the stock price is $ 25, you can place a sell order if it drops to $ 22.50 to avoid further losses. In this example, the GTC is also a time interval and accompanies the condition.

Stop Orders: The Types and Uses

A stop order is a conditional order that instructs the broker to sell a certain stock only when the stock reaches a certain price. It acts as a trigger, and the stop order is converted into a market order for the immediate sale of shares. A stop-loss order should not take advantage of small, short-term changes in share prices. It is designed to help you protect most of your money when the market suddenly turns against your stock investment.

Suppose you are Kowalski, Inc., the stock price rises to $ 20 per share, and you want to protect your investment from a possible future market downturn. An $ 18 stop loss will force your broker to immediately sell the stock if it falls below $ 18. In this example, if the stock drops to $17, the stop loss order will still work, but the selling price will be $17. In a volatile market, you cannot sell stop loss at your exact price. However, since the order is automatically converted to a market order, the sale is completed and you prevent further stock decline. The main advantage of a stop-loss order is that it prevents a significant decline in your shares. This is a form of discipline that is important when investing to minimize potential losses. Selling fallen stocks can be painful for investors. However, when they don't sell, stocks often continue to fall as investors hold, hoping for a price recovery.

Most investors set a stop loss that is about 10 percent lower than the market value of the stock. This percentage gives the stock a certain limit to the fluctuations that most stocks do in everyday life.

Going Long and Going Short

The vast majority of equity investors are familiar with buying stocks, holding them for some time, and hoping their value will increase. Such thinking is termed long-term, and long-term investors are considered to hold shares. A long position essentially means that you are optimistic and take your profit from rising prices.

However, smart investors also benefit from the market when share prices fall. Buying stocks is a common technique for capitalizing on falling prices. Investors made big profits in the bear market, taking short positions. Short selling is a bet on the fall of a particular stock. To make short sales, you must be classified as creditworthy. Your account must be approved for short sales. If you are approved for margin trading, you are likely to also make a short sale. Talk with your broker about your account restrictions regarding short positions.

Since a short position carries more risk than a long position, I strongly advise inexperienced investors to avoid short positions until they become more experienced. Most people easily understand how to make money when you are away for a long time. Going short means making money by selling high and then buying low stocks. It can be difficult to think about this saying in the opposite direction. The short-stroke mechanism is very simple. Consider an example that the fictional company DOA, Inc. uses. As a share, DOA ($ 50 per share) looks pretty painful. He has a lot of debt and sales and revenue have dropped sharply, and there is news that the DOA industry will face difficult times in the foreseeable future. This situation describes a stock that is an ideal candidate for the purchase. The future may be boring for DOA, but promising for experienced investors. You must understand the rules of the broker before making short sales. The broker must allow you to do this, and you must comply with the minimum security requirements, which are usually $ 2,000 or 50 percent of the market value of a short stock. When a stock brings dividends, these dividends are paid to the owner of the stock, and not to the person who lends it for sale.

Trailing Stops

Trailing stops are an important way of preserving wealth for experienced investors and can be one of your key strategies when using stop-loss orders. A trailing stop is a stop loss that is actively managed by an investor and is increased along with the market price of the share. The stop-loss order "pulls" the share price up. As the stop loss rises, it increasingly protects the value of the stock from falling.

Trailing stop- loss orders are stop losses, with a better option. You might enter at 1.1267. You set a trailing stop loss at 1.1237. When the market moves in your favor, the stop loss will stay 30 pips off the current market price. For example, if the price rises to 1.1297, your trailing stop loss is now at 1.1267. If the market moves against you, then the trailing stop will be triggered and sell 30 pips off the market price. It provides you with a way to not lose money if there are gains or to sell if the currency pair reacts differently than you anticipated.

There are other types of orders, but they are not worth mentioning right now. As a beginner, you should be more concerned with using those listed here. Later, after you work your way up to becoming an intermediary forex trader, you can begin to learn about other orders. *Remember, your main concern is to know enough to start trading quickly, with a profit, and later you can learn more ways to trade in forex. You want to have a realistic approach to your investments. Do not start believing that you can become financially secure from one trade. It takes patience and multiple trades to gain a sound retirement fund, millionaire status, or even a more comfortable life than you have right now.

OCO One Cancels the Other Orders

The ONE CANCELS THE OTHER order is exactly what it sounds like. For example, I could belong to a Micro S& P 500 contract and could be up or down, and might want to use the OCO. I put two orders in as an OCO: One below the market at a price that I would exit to avoid a large loss and the OTHER side of the OCO, an order to liquidate (Sell my LONG contract) up at a price for a profit. As the name OCO implies, as soon as either of these orders is triggered, the other is canceled immediately. Not all brokers accept OCO and TRAILING STOP orders. You can use any STOP, TRAILING STOP, STOP- LIMIT, or OCO whether you are long or short.

Most likely, you will want to get a little experience under your belt before you get too fancy with trailing stops and OCO's. When you get to the point where you see that not using these is costing you, it will be time for you to consider using them. Many traders never use OCO or trailing-stops – and that's ok too. Another way these types of orders can 'cost you' is if your use of them is not letting your profits amount to enough to overcome losing trades. With experience, you will learn when they work best. The OCO normally is not a routine thing for most traders; it is just another tool in your trading toolbox.

The Math of Low Commissions

Traders are always computing the ways that commissions reduce trading profits. Especially if you are new to this type trading, I have a sort of "rule of thumb" I recommend getting a good commission rate when trading the Micro Index Futures: As you trade, there is more than just the commission cost, there is also the exchange fee (that includes NFA fee only about 2 cents), the clearinghouse charge. You should find a broker with discount fees, the examples below are fair rates in my opinion for the cost of trading Micro Index Futures (per side):

Commission cost: 0.85 to $ 1.50

Exchange Fee (includes NFA fee): 0.06

Clearing Fee: 0.30 per side

So around $ 1.21 to $ 1.86 per side is a low and discounted commission.

This is about $ 2.42 to $ 3.72 round trip.

To make it easy, let's say: $ 2.50 to $ 4.25 round trip (both in and out of the trade.)

Chapter 6: Trade Psychology and Account Management

Trading Psychology: The Disposition Effect & Mental Balance

Now you need to be an expert in another skill to ensure your grip on the market. This skill is a technical skill of trading. The things mentioned by now explain this concept.

And the other skill required to master the market is a psychological aspect of the trade. The psychology of trade involves the mental capacity owned by a person to survive in this market. This is the most important feature of trade. It's also the most difficult skill to grasp. It may take you a few years to have a grip on it. The reason is that this skill is mostly learned through business trading which takes time also.

The sole purpose of this chapter is to direct you to the correct way so that you can enhance your learning over time and achieve the right mental framework.

Here I will give you some pro tips that you should always adhere to when trading, so you can develop the right mindset as the business demands.

Let's get started.

View trading as a long-term venture

Just like other things, trading is one of the projects that only requires time and effort; at the start, it seems very easy but this is not the first thing that most new entrepreneurs have in mind when they hear about it and get nervous regarding business.

To understand this in a better sense, I will explain it to you. We often found an advertisement while browsing through the internet. Imagine you find an advertisement that says,

"Emerson makes $ 100 a day day-trading from his home. Find out how." This ad triggers you to think "What if I could make $ 100 daily? Then I may resign from my job." "Lots of people are earning from home. I may become one of them"

You respond to the advertisement. Now there is a business hack, the page has a video that triggers you to invest small amounts to make easy and

quick money whenever it signals you.
After that, you will find or listen to many stories that how this work brought changes in their life. You will be convinced that most cases are of financially unstable people who became rich overnight working from that site.
Imagine you went to buy something, you start imagining bundles of money which you want to spend on a picnic but have u imagined that after spending that on a picnic how would you purchase a new car, new house, etc.
In short, after a month of using this system, you get nothing after being promised. In real you had to pay $ 50000 and now you don't believe in the internet's advertisements.
You should not be impressed by the quick and easy money-making. Trading can earn you money if you trade with patience and carefulness and put in time and effort.
Now think about the other aspects also. In case you don't know how many years it took to a student to become a doctor, so here is the answer, it took 7 or more years for a normal person to emerge as a doctor.

Trade is kind of tricky just like law, business; same as that a student pushes himself as hard as possible just to peruse his or her dreams. A businessman served his whole life to his business just to build his own business empire. Think about all the circumstances and conditions which a student and a businessman go through in his whole life. Then how could you expect that it took only a few weeks and you will learn all the terms and conditions of trade.
I simply mean that quick and easy money-making will lead you nowhere besides wasting your precious time and effort.

Trade is one of the most important ventures in the world. But to be successful in this field you must put more handwork, be more sophisticated more dedicated. But if you want to get success in this era you have to hard worker, and you need to be prepared to face both profits and loss in your venture. Ultimately, you will lead the trading scene.

Start viewing losses as part of the game

In the trading business, there is no place for the fancy world. And if you're thinking that such a fantasy world does exist, then you must change your thinking. There is no surety in trading business; all we can do is to put our efforts, give our best, and then wait for the results.
So basically, it's all about how you manage the risk, and this is the only reason why risk management is one of the main subjects of the business studies. This explains how to make more money without the fear of losing and makes business easier.
It is statistically unmanageable to secure100% of the time. Losses are common in all types of businesses. A myth is generally prevailing that the Wall Street professionals possess higher wisdom than any of us which enables them to gain an inside edge. However, this is contrary to fact.
Jack D. Schwager is the author of "Market Wizards" (I personally liked it and it is a worth reading book). It reveals that a survey team interviewed successful traders. They all concluded this fact that damages are the part and parcel of business and they admitted this point.
The worst times give the best lessons to learn. It has been realized that the losses cannot be eradicated completely from business. With the passage of time, it is understood that managing things in available resources is the only way to prevent losses. The same struggles day by day. Hard work is the only key to success and you can attain it by practicing it in letter and spirit.

As a result, another idea struck my mind, in which, a proper approach needs to be implemented, where, if an individual is honest with his profession and he prefers his / her work on anything, then nothing can stop him/her from attaining success. Subsequently, this strategy may be corroborated with a practical demonstration to see the results. And, this idea will announce a sense of achievement or otherwise. With the practice, it would be realized that business is concluded with winners and losers and the key to a successful business is to manage the losses effectively.
While doing this activity, you will build self-assurance in your practice. Going through a period of loss is one of the adverse challenges you will ultimately come across in this business (It is also referred to as a losing streak). This is basically the stage in which the system and the allied signals do not illustrate desirable performance.

If you do not have the abilities and knowledge to manage the losses in business, as it occasionally occurs, then you are likely to lose the contest. Nonetheless, if you have acquired the skills to handle the challenges during the course of business, then you can manage the situations. And in adverse circumstances, you would be aware that you need a pause and may resume after some time with good performance. Hence, this fact must be realized from now onwards that losses in the business are inevitable. One would become less concerned if the homework is already completed in all respects. You will have no trouble if you follow the 2% rule of money management. With the acquisition of practical knowledge, you could make prudent decisions and can do the right things most of the time like other experts do.

Keep trading as a part-time activity

If you take trading as a part-time activity, then it would help you end up in a successful scheme in your professional life.

If you rely on trading as the sole source of income, then it would be very difficult to do the business successfully. Undoubtedly, such professional traders do exist, who earn with an aim to support families. However, a huge number of them are receiving a regular paycheck from their employer firms. And income from trading is treated as a bonus to monthly income. The same is the working mechanism of Wall Street.

The hedge fund managers, as well as other money management professionals, are considered as efficient traders since regardless of the level of their performance, the professional management fee is charged by these people.

If you may have a holistic view, money and profits made from trading is not the only source of these professionals. This is possibly the reason for their expertise in the matter.

There is a clear-cut intention. The effective trading decisions are taken, when your overall objective is not the money only.

When there is continuous pressure on you about the matters, like, “How would I give my child’s school fees?” or “How to rent of this month would be paid to the owner?” there are high chances that you will not be able to make efficient trading decisions. Subsequently, owing to the stress, you will tend to trade disproportionately or will do the un-necessary dealings in an impulsive attempt to make some income. So, how that will be handled?

Find a day time job for yourself. Try to seek some work which you can always do part-time for financial upkeep and then the part-time trading could be carried out. As we already indicated, the swing trading strategies can be used, if you are employed at this time. A majority of people can handle this phenomenon and it takes a few minutes in a day to perform this analysis.

You can opt for trading when unemployed. Trading is open all day and night at certain markets like the Forex market which allows everybody to trade at some time of the day. People can take benefit from this flexibility.

You can learn so many things through freelance trading and by getting a day job. Primarily, you become stress-free with respect to your financial affairs.In addition, you gradually gain financial stability.

The dream comes true when you intend to invest and trade with an objective to become wealthy. The technique to invest and trade further is to save some money each month as it will help you grow financially.Thirdly, the trading can and cannot result in stress. Handling business affairs can be a difficult task. Moreover, you can immediately come across stress, especially if trading involves rapid loss and earning of money.

There can be serious consequences if you are merely thinking of using the money for your financial upkeep. When your financial responsibilities are being taken care of in a well-organized way, then you can be in your comfort zone. With this, your mind works efficiently and generates constructive ideas. You will have to wait for the right time to trade and get the opportunity to invest. In the course of these circumstances, your decisions on financial matters can increase your bank credit and can maximize your profits.

Cultivate a habit of discipline

Discipline is extremely important for trading. Realizing the success in this business becomes very difficult if you are not well-organized.

So what actually the discipline is? And what is the way to develop it? The ability to follow the code of conduct or a definite set of rules is basically defined as a discipline. We can also say that it is the aptitude to practice and apply self-control besides preventing your permissive activities in a given condition.

A problem upsetting many traders who could not get consistent results in the markets is described as the lack of discipline. In fact, in most cases, the problem is not the lack of practical knowledge to carry out a task. It is the non-implementation of theoretical knowledge.
For example, during your exams, you have a clear-cut idea of doing study instead of enjoying outside, since the results will entirely depend upon your study and hard work. To be physically fit, you know the significance of exercise. Moreover, you certainly prefer to avoid foodstuff, which is not effective for your overall health. However, a few of the things are still wrongly done in one way or another.

The same scenario is observed in the event of trading. You have an idea to keep a stop-loss order besides strictly following it. However, in some way, you cannot remain consistent because you believe that the market will reciprocate all the time. Accordingly, your loss extends to the uncontrollable levels in due course.

View trading as a game and not a way of making money

By and large, trading is actually a pleasing activity coupled with incentives and entertainment.
We are likely to overcomplicate it besides eliminating the fun part from it owing to certain reasons. It can be attributed to one of the causes of failure at trading.
Redefining your view of the whole activity and start exploring it as a game can be one possible solution.
What is the first thing on your mind, when you imagine a game? Typically, games are linked to a lot of amusement. These are also considered as a way to emotionally and psychologically challenge ourselves. Besides, these are assumed to be the activities, wherein there are no real penalties in the event of losing the game.
The trading can also be seen in a similar way.
Imagine the trading as a game of points basically. The money you are investing in is actually the point. Carefully playing the game besides collecting maximum points over time is the major objective of this game. It

would be the natural phenomenon that at times, you are either winning the points or the other way around.

You can expand your activities with the accumulation of points. The accumulated points may also be used for practical use; however, it is not the point of concern. The main point is to demonstrate the sportsman spirit. Never lose courage and do what you love and love what you do. Passion and profession should be the same to attain success as hardships and challenges give you many lessons and inspiration to move further.

Observe your feelings and emotions? With your previous trading experience, you can better realize how it tends to remove almost all the stress? Can you notice the new avenues and growth opportunities for you? What would be the scenario, if you prefer to turn out to be a trader with these views and opportunities?

Let's have a comparison. Suppose, you are trading a $ 100, 000 business and in this month you gain a 20% profit. Now, you are imagining "Hurray, I have got a handsome amount and I could get a car!" Then, unpredictably, you witnessed a declining stage and hit a losing streak with a loss of 10%. Subsequently, you become sad and regretful, "The money, which has been lost, could also have been spent on a holiday." Or your mind advises you, "This money was equal to my two monthly salaries, Oh my God! How it all took place?"

Have you noticed the dissimilarity between these two aspects? One view is associated with enjoyment and fun and the other one makes you suffer from emotional ups and downs. Which one is the ideal and best way to be successful as a merchant?

If you are eager to get pleasure from this, you have to reshape conventional money management skills. Then, you have to consider trading as a game of points to play and seek fun from it and not as a way of making money.

If you have the same point of view, you will be happy with the trading venture and your undertakings would go ahead smoothly as planned and as desired.

Chapter 7: Technical Charting Patterns and Indicators

The Goal of Using Charting for Better Trading

Bullish candlesticks are of various kinds: bullish engulfing, bullish harami, and hammer.
A green candle with a big body is the bullish engulfing candlestick, which covers a complete range of the previous red candle. The reversal becomes sharper in this candlestick as the body is huge. Nevertheless, the previous red candle body should be fully covered by the body.

The very efficient bullish engulfing candlesticks are generated by the tail end of a downtrend which generated an extreme reversal bounce which engulfs short-sellers, creating a panic short-covering buying agitation. The bargain hunters are hence encouraged by this, to leave the boundary and go beyond through increasing the pressure of buying. The expected reversals on downtrends are signaled by this kind of candlestick while it also gives a continuation signal for uptrend when they occur following the reversion pullbacks. The bullish engulfing candles become very efficient when the volume is anticipated to increase by double the average. The next candlestick is formed by the buy triggers which permit the high of the bullish engulfing candlestick.

A backward version of the bearish engulfing candlestick pattern is developed by the bullish harami candlestick where the smaller harami candle is surpassed by a big body engulfing candle. It is expected that the previous engulfing red candle will form a capitulation large body candlestick which created the lowest low point of the sequence displaying a capitulation sell-off, which occurs before the harami candle which is falling under the range of the engulfing candle and is likely to be trading better. The short-sellers remain in the state of complacency due to the subtleness of the small body as in their opinion the stocks will go down again, but they rather stabilized before they can develop a reversal bounce which happens to be a surprise for the short seller as the stock reverses to the highest. This kind of candlestick is an efficient indicator that makes sellers remain satisfied until the trend reverses gradually. Nevertheless, in contrast to bullish engulfing it is not much nerve-racking or intense. Hence, its subtleness makes it very dangerous for short-sellers as the process is quite slow but it rises swiftly. The buy long trigger is created when the next candle increases through the high of the previous engulfing candle, then breaks can be plotted underneath the lows of the harami candle.

Candlesticks Defined

The technical tools that collect data from multiple time frames and incorporate it into single price bars are called candlestick charts and they are very useful as compared to the conventional Open High, Low Close Bars also known as OHLC which in other words are only basic simple lines which join the dots of closing prices. After accomplishment, the patterns constructed by candlesticks are efficient enough to foretell the direction of the price. This colorful technical tool is further elaborated through proper color coding. This tool existed even in the 18th century when it was used by rice traders.

Day traders use candlestick charts as it enables them to see the image of price movements at its best by showing the open, high, low, and close values in terms of up or down sessions. The candlestick patterns are of various kinds and there is a variety of candlestick formations that are created off-price actions to facilitate traders with a forecast of the upcoming events. Other chart types can also implement these formations which consist of point and figure charts, box plot, box charts, etc.

MACD

The bullish reversal candlestick consists of the hammer candlestick type and it stands amongst the most used candlestick patterns which are employed to develop the capitulation bottoms and after that, a price bounce is used by the traders to integrate into long positions. This kind of candlestick usually develops at the end of a downtrend to highlight an immediate term price bottom. There is a lower shadow in the hammer candle which develops a new low in the downtrend pattern and closes back up close to or above the open as well. Nonetheless, the lower shadow also called the tail is assumed to become a minimum two or even greater times the size of the body. When the positions are being covered by the shorts and bargain hunters come to a decision, it shows the longs who had surrendered in the end. A rise in volume solidifies the hammer.

Thus, it is significant for approving the hammer candle that the candles that follow close higher than the low of the hammer candle or it should close above the body as recommended. The typical buy signal is an entry that is higher than the high of the hammer with a long trail stop positioned below the body of the low of the hammer candle. Timing an entry is a sensible decision employing a momentum indicator like the MACD, stochastic, or the RSI.

There are various bearish candles too alike various kinds of bullish candles; namely; the shooting star, bearish engulfing, and the bearish harami.

The bearish reversal candlestick consists of the shooting star candlestick type and it signifies a peak or a top. It is the reverse version of the hammer candle. Conventionally, a minimum of three or even more following green candles is traced by this type of candlestick which signals the increasing price and demand. Moving further, the patience is lost by the buyers and they tend to run after the new price highs, which are contained in a pattern before they realize that they have paid more.

Price Changes in Dollars NASDAQ 100

The S& P 500 Index is comprised of large-cap stocks and each of its component stocks has much less effect on the whole average because there are 500 of them.

The NASDAQ 100 stocks are normally perceived as 'the tech stocks.' The Russell 2000 (2K) Index is comprised of broadband of medium stocks and some small-cap stocks.

One thing a trader wants is liquidity, a large number of contracts outstanding (abbreviated as OI or outstanding issues), and a high volume of trading. Of the four Micro Futures, the micro S& P 500 index is tops in all these categories. The Russell 2k is usually the lowest, while both the DJIA and the NASDAQ usually have plenty of activity. Any of the four are easily tradable. One of the reasons you want to always trade the closest or my 'nearby' futures of an index is because it will have the highest volume, OI, and activity. This means efficient pricing and liquidity.

Chapter 8: Practice to Gain Confidence Prior

Now that we have taken some time to learn more about options and the benefits of trading in them, it is time to get started on the actual process of trading with them. We will make this easier by breaking things down into steps so that it is easier to understand. Sometimes as a beginner it is confusing to know where you should begin or what steps to take, so we are going to try to make this as easy as possible so you can be successful right from the beginning.

Getting ready

Practice Trading

Before you start with the actual process of trading, there are a few steps that you can take first. You need to have a good understanding of some of the basics, which we have covered a bit, such as the types of options available. The more information you have about options and what they are, the more prepared you will be to begin this journey.

Once you are pretty certain that you have a good grasp of trading and what comes with options, it is a good idea to think about why you want to go into trading? How much money would you like to make and what other goals are important to you during this time? It is always a good idea to be precise in your goals because you can develop your strategy around this. It also helps to break frustration and overspending from the start.

But the most important thing that you can do in this first step is to make sure that you create what is known as a trading plan. This is basically a plan that lists out everything that you want to accomplish such as your expectations, goals, and the guidelines that you will follow with your strategy. Those who don't go into this with a plan are the ones who add a lot of risk to the whole process.

Getting a broker

The second step is to find a good broker to work with. The broker is the person who, at your request, will make the actual trades. Remember that they will require some fees and a commission for the work that they do, so factor this in when figuring out the costs of getting started with options. Do some research on the broker that you would like to work with? There are some that will offer their services at a discount, but you have to determine if they are a good choice for you or not.

When you first get started with your new broker, they will probably sit down and discuss some of the things that they like to do with trading and they will go over a risk assessment with you since you are a new customer. This risk assessment is when the broker will figure out how much risk you will feel comfortable with based on your investment and financial history, and then they can assign you a trading level to keep you safe. This is a good place to start to develop your strategy and will help the broker to provide you with the best services possible.

Major Goal of Practice

Since a contract with options is going to be a derivative of other securities, there are quite a few that you will be able to pick from. You are able to purchase and sell options contracts of things such as stocks, bonds, foreign currencies, commodities and so much more. This is great news because it allows you to work with what you are comfortable with and will give you a lot of flexibility in the process. The key point here is to do your research before entering the market because it is never a good idea to just pick out a bunch of options that you have no idea about simply because you can.

Managing your money and your risk

The next thing that you need to consider when you get started with options trading is to know how you can manage your risk and your money. Like any type of trading, options are known to be risky and if you just jump in without a plan and you aren't careful, it is possible for you to lose a lot of money. When you are creating your own trading plan, it should include some guidelines on the amount of risk that you will take depending on the money amount that you are using.

Get this kind of plan in place right from the beginning and keep it there. Having this plan in place is going to help keep your emotions out of the game; if emotions get into the game, you may as well give up now because you will make bad decisions that will lose you a lot of money. This is true whether the emotions are excitement, greed, nervousness, or something else.

Before you make any decisions with trading, take a breath, look over your plan, and then make the decision that will stay closest to that plan. If you follow that good feeling that you have about a trade, you will often take on more risk and it could be disastrous.

One way to help you keep a better hold on your risk and money is to use what is known as an option spread. This is when you will combine more than one position on your contract on the same security. This way no matter which way the market goes, you will end up making some money off the process rather than losing out.

Diminishing Returns and the Order-Creep Phenomenon

Another thing that you need to work on when you enter the stock market is diversifying. This makes a lot of sense and is actually one of the best ways to limit how much risk you are taking on. There are some choices that you can make when it comes to diversifying in options trading. You can choose to work on a variety of strategies, pick out different securities, work on different orders, and even invest in different types of options.

Position sizing

This step sounds kind of fancy, but it is pretty simple. All that it means is that you will decide how much money, or how much of the capital that you are using, that you want to spend on taking a certain position while trading. It is similar to diversifying because you probably don't want to spend all of your money sitting in one position. When you stay in control of your capital, you are able to control your losses better and it is easier to protect yourself from big losses.

Planning out the trades

Once you have finished out some of the other steps, it is time to get with your broker and start options trading. Some of the steps that you need to do for this part include:

.Forecasting: in this step, you need to make predictions about what will happen with the security, such as whether it is going to rise or fall. Having this forecast is going to determine the strategy that you will use and the options that will fit into that strategy.

.Setting goals: in this step, you will have to decide what your goals are. You can ask yourself some questions for this one, such as how much you would like to make off the trade? This can help you determine whether or not the trade was successful when it is all done.

.Choose the right strategies: there are a lot of great options trading strategies that you can choose and we will discuss them a bit more lately. But having a good strategy in place is going to help you be successful. Before you contact the broker about making a trade, you need to choose what strategy you would like to use.

.Choose your position sizing: this is going to be the basic decision of how much money you would like to put into each option so that you have a good idea of the risks ahead of time.

Making the trades

Once the other steps are done, it is time for you to contact your broker and work with them to place the orders that you want to work with. You should have already set up the funds with the broker, so it won't be too hard to get the orders going quickly. This is the point where you are entering into a trade and you should also spend some time writing out what circumstances need to happen when you want to exit the trade. Will you keep going until the contracts expire? Will you close them early when you receive certain information? Or is there some other determining factor about when you will exit? This is important because it helps you to have a good strategy for all parts of your trading.

Monitoring the trades

After you place your orders and the broker has been able to make the trades for you, there are a few other things that you will need to do. it is not enough to just put in the money and hope that things go well. Instead, you need to spend your time monitoring the trades as they are in progress. What this means is that you have to keep good records about what is going on throughout time with your security so you can make good decisions about holding onto this option or whether it is time to close it or not. The choices that you will make during this particular stage will depend on whether you lose money or make a profit on the options that you chose.

And that is basically all that it takes to get into the options trading and start making the money that you want in the process. If you pick out a good trading strategy and a good process to work with along the way, this process can yield you a good return on investment without having to put in as much work as you find with the stock market. It can still be hard to do sometimes, but as you get better at your strategy and work hard to learn how this market works, you can make some good money in the process.

Chapter 9: Checklist and Trading Log

Building a Trading Plan

As the old adage goes, failure to plan is planning to fail. So by preparing a trading plan you are planning to avoid failure. For anyone who is serious about succeeding as a trader, you have to plan your trading. If you are considering trading as a career, you need to take your time and study the market so that you can come up with the best strategy to win.

Some of the steps to follow when preparing your business plan include:

a) Choose the Trading Instruments you want to Trade in

There are many financial instruments that you can trade in, and this includes Commodities, Exchange Traded Funds, Forex, Stocks and Treasuries among others. You may be tempted to try several of these at one time, however, you cannot be a jack of all trades if you are serious about becoming a profitable trader. It follows that you have to carefully select an instrument in which to trade. This can be quite a job if you have never dealt with financial instruments before. However, this should not scare you off from becoming a trader.

Because you will heavily rely on small price movements as a trader to make any significant profit, you need to consider a number of important factors when selecting the instrument on which to trade. The two major important factors to consider are volatility and the liquidity of the instruments. Liquidity here means the ease with which your instrument of choice can be bought or sold. For example, whereas stocks are fast moving and can be bought and sold easily, dealing in commodities may take time to finish a transaction, and this can affect your profitability. Volatility, on the other hand, refers to price movement. Trading in an instrument with volatile prices gives you a chance to make more profits as opposed to trading in an instrument that takes a longer period for the price to move (For example, trading Netflix is more volatile than trading GE).

b) How much Capital will you Invest in each Trade?

Capital requirements and management are very important when developing your trading plan. This is because, you need to know the amount you must have for you to start trading, and at the same time you must identify the amount of money you are willing to risk with each trade. For example, to day trade unlimited trades of American stocks, you will need a minimum of $25,000 and about $5,000 when trading in commodities. However, you can day trade in accounts that are less than $25,000, but you are limiting yourself to only 3 day trades per week. This is an important financial concern when deciding how you will trade and it will become an important part of your trading plan.

It is recommended that you use no more than 10% of your available capital to commit to any given trade. You can even go less than 10% depending on your tolerance for risk (explained later). Also I recommend paper trading any new trading strategies for at least 10 trades or until you feel you can duplicate your success in the real world. So when creating your trading plans, it is important you consider this carefully.

c) Determine the Strategy you will use

The strategy is another important aspect for any trader to consider. Trading without a strategy is like gambling, and you are likely to make a lot of costly mistakes. You need to pick the best trading strategy to meet your goals.

Essentially, a trading strategy will consider what you want to achieve and why and provide you with a roadmap to achieving it. In other words, your trading strategy is the "how" of your trading but should reflect the "what and why" of your trading. Having
a profitable trading strategy or strategies is the only way to guarantee success in your trading.
It helps you be aware of your motivation and helps you make better decisions with your trading.

So how can you choose a trading strategy? There is no approach that is perfect for everyone. In fact, there are as many approaches for each trading strategy as the number of traders available. You must review your motivation, skills, abilities, risk tolerance, challenges and other considerations before deciding on a given strategy.

d) Set Entry and Exit Rules

Many traders make a serious mistake by concentrating their efforts on trying to predict price movement instead of planning when to enter or exit a trade. To make it easy trading a given financial instrument, it is important that you set entry and exit rules. Quite a number of traders also suffer huge losses every day because they failed to exit a trade because they were afraid to take a loss on. The key to success as a trader is learning when to exit a trade so you can limit your losses, take your profits, and manage your money. One entry and exit strategy for long trades are buying on support and selling at resistance, but there are many others.

The key point is to set your exits to take profits and limit your losses. The exit price is made up of two components: your profit targets and your stop losses. And you should know the amount of risk you are willing to take for each trade. Many experts recommend 2% of your total investments in the trade. This means that you should at least set your stops at 2% below the entry price (for longs) and 2% above the entry price (for shorts). There is more on this subject in chapter one on ‘Set Your Stop Losses’.

Chapter 10: Mistakes to Avoid

Inexperienced traders are often warned away from purchasing options that are out of the money as being a greater risk than the ultimate reward is likely to be. While it is true that a short expiration time coupled with an out of the money option will frequently look appealing, especially to those with a smaller amount of trading capital to work with, the issue is that all of these types of options are likely to look equally appealing which leaves them with no way to tell the good from the bad. As a more experienced trader, however, you have many more tools at your disposal than the average novice which means that, while risky, cheap options have the potential to generate substantial returns, as long as you keep the following in mind while trading them.

Mishandling early assignment: Early assignment occurs when a holder exercises an option that you are the writer upon much early that you had anticipated, and at terms that are much less favorable than you had initially hoped. If this happens, it can be easy to become flustered and simply sell as requested, taking a loss in the process. Instead, it is important to consider all the possible options, including purchasing another option for the express purpose of selling it, to ensure that you mitigate the extra costs as completely as possible.

Ignoring the statistics behind options trading: One of the biggest mistakes that most newbie options traders make is that they forget that probability is a real thing. When you check a potential stock before purchasing an option, it's important to understand that the history of an option is important when deciding whether or not you should be investing in it, but so are the odds and probability surrounding whether or not a particular event is going to occur.

For example, a common strategy that investors use is to leverage their money by investing in cheap options so that this will help to prevent big losses on a stock that they actually own shares of. Of course, this is a good strategy, but nothing works one-hundred percent of the time. Make sure that if the rules of probability and simple ratios are telling you to stay away from a deal, you listen to the facts that are staring you in the face. Wishful thinking will come to bite you later on.

Being overzealous: Oftentimes when new options traders finally get their initial plan just right, they become overzealous and start committing to larger trades than they can realistically afford to recover from if things go poorly. It is important to take it slow when it comes to building your rate of return and never bet more than you can afford to lose. Regardless of how promising a specific trade might seem, there is no risk/reward level at which it is worth considering a loss that will take you out of the game completely for an extended period of time. Trade reasonably and trade regularly and you will see greater results in the long term guaranteed.

Not being adaptable: The successful options trades know when to follow their plans but they also know that no plan will be the right choice, even if early indicators say otherwise. There is a difference between making a point of sticking to a plan and following it blindly and knowing which is which one of the more important indicators of the separation is between options trading success and abject failure. This means it is important to be aware of when and where experimentation and new ideas are appropriate and when it is best to toe the line and gather more data in order to make a well-reasoned decision.

This also means having several different plans in your options trading toolbox and not just resolutely sticking to the first one that brings you a modicum of success. This is crucial as there are certain plans that will only work in specific situations and knowing which to use when, in real time, will lead to significantly greater returns on a more reliable basis every single time.

Likewise, an adaptive options trader knows that market conditions can change unexpectedly and is prepared to respond accordingly. This means understanding when the time is right to go in a new direction, regardless of the potential risks that doing so might entail. Sometimes a good trader has to make a leap of faith, and a trader who is successful in the long term knows what signs to look for that indicate this type of scenario is occurring in real time. Unfortunately, this type of foresight cannot be taught, and instead must be found with experience.

As long as you keep the appropriate mindset regarding individual trades, any new strategy that is attempted will result in invaluable data, if nothing else. It is important to understand that learning not to use a specific course of action a second time is always valuable, no matter the costs.

Chapter 11: Develop a Trading Plan

Win Rate Versus Reward-Risk Ratio Computations

Know when to go off book: While sticking to your plan, even when your emotions are telling you to ignore it, is the mark of a successful trader, this in no way means that you must blindly follow your plan 100 percent of the time. You will, without a doubt, find yourself in a situation from time to time where your plan is going to be rendered completely useless by something outside of your control. You need to be aware enough of your plan's weaknesses, as well as changing market conditions, to know when following your predetermined course of action is going to lead to failure instead of success. Knowing when the situation really is changing, versus when your emotions are trying to hold sway is something that will come with practice, but even being aware of the disparity is a huge step in the right direction.

Avoid trades that are out of the money: While there are a few strategies out there that make it a point of picking up options that are currently out of the money, you can rest assured that they are most certainly the exception, not the rule. Remember, the options market is not like the traditional stock market which means that even if you are trading options based on underlying stocks buying low and selling high is just not a viable strategy. If a call has dropped out of the money, there is generally less than a 10 percent chance that it will return to acceptable levels before it expires which means that if you purchase these types of options what you are doing is little better than gambling, and you can find ways to gamble with odds in your favor of much higher than 10 percent.

Avoid hanging on too tightly to your starter strategy: The personalized trading strategy that you created in chapter four if you have been following along is an important step in trading properly, no two ways around it. That doesn't mean that it is the last strategy that you are ever going to need, however, far from it. Your core trading strategy is one that should always be constantly evolving as the circumstances surrounding your trading habits change and evolves as well. What's more, outside of your primary strategy you are going to want to eventually create additional plans that are more specifically tailored to various market states or specific strategies that are only useful in a narrow band of situations. Remember, the more prepared you are prior to starting a day's worth of trading, the greater your overall profit level is likely to be, it is as simple as that.

Suggestions for Improvements

Utilize the spread: If you are not entirely risk averse, then when it comes to taking advantage of volatile trades the best thing to do is utilize a spread as a way of both safeguarding your existing investments and, at the same time, making a profit. To utilize a long spread you are going to want to generate a call and a put, both with the same underlying asset, expiration details, and share amounts but with two very different strike prices. The call will need to have a higher strike price and will mark the upper limit of your profits and the put will have a lower strike price that will mark the lower limit of your losses. When creating a spread it is important that you purchase both halves at the same time as doing it in fits and spurts can add extraneous variables to the formula that are difficult to adjust for properly.

Never proceed without knowing the mood of the market: While using a personalized trading plan is always the right choice, having one doesn't change the fact that it is extremely important to consider the mood of the market before moving forward with the day's trades. First and foremost, it is important to keep in mind that the collective will of all of the traders who are currently participating in the market is just as much as a force as anything that is more concrete, including market news. In fact, even if companies release good news to various outlets and the news is not quite as good as everyone was anticipating it to be then related prices can still decrease.

To get a good idea of what the current mood of the market is like, you are going to want to know the average daily numbers that are common for your market and be on the lookout for them to start dropping sharply. While a day or two of major fluctuation can be completely normal, anything longer than that is a sure sign that something is up. Additionally, you will always want to be aware of what the major players in your market are up to.

Forming Your Trading Plan

Never get started without a clear plan for entry and exit: While finding your first set of entry/exit points can be difficult without experience to guide you, you must have them locked down before starting trading, even if the stakes are relatively low. Unless you are extremely lucky, starting without a clear idea of the playing field is going to do little but lose your money. If you aren't sure about what limits you should set, start with a generalized pair of points and work to fine tune it from there.

More important than setting entry and exit points, however, is using them, even when there is still the appearance of money on the table.One of the biggest hurdles that new options traders need to get over is the idea that you need to wring every last cent out of every successful trade. The fact of the matter is that, as long as you have a profitable trading plan, and then there will always be more profitable trades in the future which mean that instead of worrying about a small extra profit you should be more concerned with protecting the profit that the trade has already netted you. While you may occasionally make some extra profit ignoring this advice, odds are you will lose far more than you gain as profits peak unexpectedly and begin dropping again before you can effectively pull the trigger. If you are still having a hard time with this concept, consider this: options trading are a marathon, not a sprint, slow and steady will always wins the race.

Never double down: When they are caught up in the heat of the moment, many new options traders will find themselves in a scenario where the best way to recoup a serious loss is to double down on the underlying stock in question at its newest, significantly lowered, price to make a profit under the assumption that things are going to turn around and then continue to do so to the point that everything is completely profitable once again. While it can be difficult to let an underlying stock that was once extremely profitable go, doubling down is rarely if ever going to be the correct decision. If you find yourself in a spot where you don't know if the trade you are about to make is actually going to be a good choice, all you need to do is ask yourself if you would make the same one if you were going into the situation blind, the answer should tell you all you need to know.

If you find yourself in a moment where doubling down seems like the right choice, you are going to need to have the strength to talk yourself back down off of that investing ledge and to cut your losses as thoroughly as possible given the current situation. The sooner you cut your losses and move on from the trade that ended poorly, the sooner you can start putting energy and investments into a trade that still has the potential to make you a profit.

Balance

Before today's deep discount brokers and internet electronic trading, many brokers required minimum account balances of $ 25,000 to $ 100,000 for anyone who wanted to trade futures. You could not open a futures trading account back then for only $ 2,000 or less like now. Small investors, who had dozens of questions and took up the valuable time of a stockbroker, were often considered little more than an unprofitable distraction. Brokers often had very strict financial requirements and rules for any investor to be able to trade options, stock margin accounts, and futures contracts. This was back in the day when orders were called in by phone to a live broker, who wrote order instructions on triple-copy pads. This order was given to an employee through a vented glass window, who then used a teletype machine to send the order to the exchange where it was handed to a floor trader to execute. For a trader to get a confirmation of his order, sometimes took 30 minutes or longer. I am amazed that not until 25 years after we put a man on the moon in Apollo 11, did this system become obsolete. You are a pioneer in a new frontier.

How In Trying Too Hard - You Can Defeat Yourself

Find a Mentor: When you are looking to go from causal trader to someone who trades successfully on the regular, there is only so much you can learn by yourself before you need a truly objective eye to ensure you are proceeding appropriately. This person can either be someone you know in real life, or it can take the form of one or more people online. The point is you need to find another person or two who you can bounce ideas off of and whose experience you can benefit from. Options trading don't need to be a solitary activity; take advantage of any community you can find.

Knowledge is the key: Without some type of information which you can use to assess your trades, you are basically playing at the roulette table. Even poker players show up to the table with a game plan. They can adapt to the circumstances and learn to read other players. That way, they can tell the contenders from the pretenders. Options trading are no different. If you are unable to use the information that is out there to your advantage, then what you will end up with is a series of guesses which may or may not play out. Based purely on the law of averages you have a 50/50 chance of making money. That may not seem like bad odds, but a string of poor decisions will leave you in the poor house in no time.

So, it is crucial that you become familiar with the various analytics and tools out there which you can use to your advantage. Bear in mind that everyone is going to be looking at the same information. However, it is up to you to figure out what can, or might, happen before everyone else does. This implies really learning and studying the numbers so that you can detect patterns and see where trends are headed, or where trends may reverse. The perfect antidote to that is vision and foresight. Practice building scenarios. Try to imagine what could happen are trends continuing. Or, what would happen if trends reversed? What needs to happen for those trends to continue or reverse?

When you ask yourself such tough questions, your knowledge and understanding begin to expand. Your mind will suddenly be able to process greater amounts of information while you generate your own contingency plans based on the multiple what ifs. That may seem like a great deal of information to handle, but at the end of the day, any time spent in improving your trading acumen is certainly worth the effort.

CONCLUSION

As you can see, there is no set recipe for trading. And as scalpers, we just have to be flexible and adapt our trading to the current market conditions. If the situation changes, don't stay stubborn with your current strategy as it may no longer be relevant to the new market situation. Instead close your position, if your stop loss hasn't been already executed, and move to the next strategy. But whatever trading method you follow, you have to be rigorous in your trading and remember that for each trade:

.You need to have a trading plan with an entry price, exit target and stop loss;

.You should always trade with a stop loss;

.Never overtrade using too much leverage and therefore too much account margin.

Not respecting these rules may cause big losses to your account ruining your accumulated profits and putting you in a difficult situation. So, trade rigorously and you will be OK. From my point of view, scalping is the best way to start trading with minimum risk taking given the tight stop losses and closed positions before you finish your trading for the day. By working again and again, accumulating small profits trade after trade, you can build your confidence and enjoy trading as I do. I wish you success in this endeavor.

All the best!

Day Trading for Beginners

[Tony Correra]

Introduction

Congratulations on purchasing *Day Trading for Beginners,* and thank you for doing so.

The following chapters will discuss how you can make your way into the world of day trading. It is true that with day trading, you can increase your profit margin a lot but it is not at all risk-averse. That is why it is even more important for you to make learned decisions rather than diving right in. In simpler terms, day trading is all about trades conducted on the same day, but there are a lot more things to it than just this. It is now that almost everyone can perform day trading, but initially, it was only the investment firms and banks that were allowed to indulge in it.

There different types of trading styles that you will learn under day trading. There is swing trading, and then there is scalping. Some traders like to stay fixated on any one style while others prefer to try their hand out at a mix of different styles. But in general, you will have to put all your focus on the trades when you are day trading, and so it is better if you stick to any one type. If you consider the international financial markets, then day trading has a big role to play there but if we are talking about long-term economic growth, then day trading cannot help you out there mostly because you cannot generate capital for businesses out of it.

There are many books on the market related to this topic, thank you for choosing this book. Every effort has been made to ensure as much information as possible. Please enjoy.

Chapter 1: What Is Day Trading?

In this first chapter, we are going to discuss what day trading is and what it means to be a day trader. Once you have become a bit experienced in the stock market, you should try your hand out at day trading because it can turn out to be quite a lucrative career option. Contrary to other forms of trading, in the case of day trading, everything happens in a single day. So, you purchase the asset and then sell it on the same day, ensuring that you make a profit. And that is why to be an expert at this, you have to master a lot of short-term moves. You have to remain at the top of the news at all times because the prices of assets will be instantly affected by interest rates, corporate earnings, and economic statistics.

I have to agree on something and that is – day trading involves a lot of risks as compared to the other processes, but it also stands a chance to give you handsome profits. So, in-depth knowledge about the market and its metrics is essential for you to make it big as a day trader. You should also not risk any amount of money in day trading that you cannot afford to lose. The volatility present in the market is going to predict your profits or losses and so, you have to practice a lot of discipline and learn a whole lot of strategies that we are going to discuss in the latter part of this book.

Day Trading vs. Swing Trading

If you are confused between these two terms, then we shall start by clearing out the meaning of these two. To make your path clear, you need to have a proper understanding of both these techniques. The ultimate decision of whether you want to get into swing trading or just old and simple day trading will depend on how much activity you can remain. In this section, I will try to help you understand both these forms of trading so that you can decide as to which one you want to go ahead with.

In the case of day trading, you will be trading daily (as you can understand from the name) and on each day, you will be making multiple trades. There is a particular defining point set by FINRA to call you a day trader and it says, in five days, you have to make at least four trades to qualify as a day trader. Several factors like quantitative reasons, fundamentals, and technical aspects, are taken into consideration before you can get into position as a day trader. You are not going to hold your position for the night in this case.

On the other hand, in the case of swing trading, you are buying the securities but not selling them at once and instead, holding on to them for a few days. The traders in this type of trading like to believe that their trade is not going to reap them enough profits in a single day and so, they like to wait for some time.

A day trader is more focused on using different strategies and makes money out of it and there are a lot of sophisticated charting systems that they use. They make numerous trades and then incur small profits on every one of them. At the end of a particular period, all these small profits accumulate to give you a bigger profit. You are also capping your losses in the case of day trading. The scope of making some handsome profits is the incentive for people to invest in day trading. But you should not be doing day trading if the capital that you are using has been borrowed from someone else. Being a day trader is not easy, and it definitely cannot be done while you are doing another full-time job.

On the other hand, even if you have a full-time job, swing trading will not require much of your time. The trades here are not performed in the short term and they are kept for some time until they can bring you profits. In the case of this type of trading, the positions are being held by you overnight, and so there will be higher margin requirements. But in the case of day trading, it will become four times your capital.

Buying Long, Selling Short

The simplest way to go about the process of day trading is to first buy a position that is preferably going to go up and you simply have to wait for it to do so and then you can sell it. Since you are selling it at a higher price, you get to keep the profits. This strategy can work really in a situation where the economy is in good health. But it might not work in certain situations, especially when there are a few days or there is some mismanagement issue in the company. In that case, you have to sell short and I am going to explain to you what it means. This is a thing in the trading lingo you will be considered to be in a long position when you own that particular thing, and you will be considered to be short when you are selling it.

If you are a day trader, you will find that selling short isn't that much hard after all and this is because of the brokerage firms who make the process easier for you. But to sell short, you have to make a speculation about the market. You are predicting that the price of the security that you are holding is about to go down. You first have to sell the stock by placing an order. Then, your broker will be asking you as to whether you want to sell it short or you simply want to sell shares that you currently own. When you tell the broker that you want to sell short, they will borrow some shares. And then, the sell order is executed on these shares.

After that, all you have to do is wait for the price of the security to go down because, after that, you will be bargaining the price and buy the stocks back. Then you can pay the loan that was taken by using these purchased shares. The difference in price will be your profit.

An example should make the process cleared for you. Let us say that the trading price of an ABD stock is $50 and you anticipate that there will be a fall in the price of these stocks in the coming three months. So, you get 100 shares by borrowing and then find another investor to whom you can sell these 100 shares. Now, you have sold shares that did not belong to you, so as per the trading lingo, you are short of 100 shares. This sale would not have been possible if you were not able to borrow the shares. Now, let us say that the stock price falls to $40 after about a week. Then, you can close the position at $40 and buy your 100 shares back. So, you will be making a profit of $1000. This is because the difference between the two prices is $10 ($50-$40) and when it is multiplied by the total number of shares, that is 100; it gives you $10 x 100 = $1000.

High-Frequency Trading (HFT)

HFT is just another form of trading and there is no formal way of describing the process. There are several preset algorithms involved and computer programs are used to conduct the trades. Since a huge number of trades are carried on in a day in this type of trading, that is why it is named as high-frequency trading. There are times when the deals are made in seconds, stocks are bought and then sold after just a few seconds and the transactions occur in high volumes too. But you have to keep in mind that this is possible only because of automation. The volume and the corresponding speed of the trades performed would never have been possible if a human were to do it. Like I mentioned earlier, no one has yet released any formal definition for this term, but I am going to talk about a few trading characteristics here which have been produced by the SEC or the Securities and Exchange Commission to refer to this form of trading –

.It involves the usage of certain very sophisticated and high-speed programs that not only execute the orders but also help in generating and routing them.
.The trades span over a very short frame of time not only to liquidate but also to establish the positions.
.There are individual data feeds and co-location services involved, and these are given by the exchanges so that several latencies, including the network, can be minimized.
.Numerous orders are submitted but they are also canceled within a short period.
.The aim is to close the trading day close to the flat position, which, in simpler terms, means that there will be no unhedged positions left over the night.

You can conduct the HFT within 64 millionths of one second! As you can imagine, this measure of time is the time that the computer will take to take your order, process it, and then transfer it to another machine. The response time, in this case, is much faster than what a regular human being can and it is only possible because it is being done on the computer. A human brain would take much longer just to process that data. This is also why this particular type of trading comes with its own set of advantages and I am going three of the most important advantages here –

.**Volume Trading –** The first advantage is the fact that the huge number of trades that can perform with this type of trading. If the trades were performed manually, this huge number would not have been possible and would have been, in fact, impractical.

.**Short Term Opportunities –** With this type of trading, the trader learns to take advantage of certain opportunities that exist only for a very short period, which would not have possible in any other form of trading. Sometimes certain changes occur that exist probably for a few seconds or sometimes minutes and it would not have been possible for manual traders to take its advantage.

.**Arbitrage Opportunities –** If you do not know what arbitrage means well, it is when there are two different prices to the same asset and you can take advantage of that. Let us say that in City 1, you are getting a commodity at $1 per unit, but in City 2, you are getting it at $1.5 per unit. So, if you purchase it in City 1 but sell it in City 2, you make a profit and this is called an arbitrage opportunity. Although such opportunities are less, in the case of HFT, you can get such moments where the opportunity does not even last a second but less than a second, and only an automated system can help you make a profit in such a situation.

Trade The Best, Leave The Rest

This is something that you will have to start developing in yourself if you want to get into day trading. Once you have made a couple of good wins in the day, it is okay to exit the market. You don’t have to try out everything that comes your way. Sometimes one loss may be so great that it wipes out any profit that you made over the day. So, in that case, all those profits would not stand any meaning just because of that one loss. In simpler terms, don’t be too greedy. If you have already made some profits and you don’t notice too promising trades, why stretch it unnecessarily? That is why it is always advised that you trade the best and leave the rest.

Chapter 2: Risk And Account Management

If you want to figure out a way of cutting down your losses, you have to learn risk management strategies. This is also something that is essential for ensuring that your account is not entirely drained of all the money that you have. But even after stressing on the importance of risk management so much, it is often overlooked and neglected. You have to remind yourself that even if you have gained a lot of profit in one single trade or over a series of trades, it doesn't matter if you are not careful because, in the next trade, you can lose it all and more in one go. That is why a risk management strategy is so important.

Yes, it is true that day trading can be profitable and also an exciting venture, but you also have to remain highly focused and not let your emotions interfere with your trading practices. In this chapter, we are going to learn more about it and I will show you how you can maintain an objective and strategic approach towards it. Trust me; this is the smartest way to cut off your losses and maximize your profits along the way.

Risk Management

Here are some simple yet effective strategies to use if you want to manage the risk involved.

Plan Your Trades Smartly

Planning is an essential part of avoiding all the risks or at least managing the risk that comes your way. In fact, planning your trade can actually make all the difference between meeting a success and facing failure. But before all of that, you have to make sure that the broker that you have chosen for yourself is suitable for trading frequently. This is because not all brokers are meant for day trading. Some brokers are more suited for those who are into infrequent trading and if you choose the wrong broker, then you might simply end up paying higher commissions, which would mean lesser profits. Also, you have to have a clear idea of the points where you want to sell. Trading is not gambling and you will be at a loss if you think it is. Don't ever let your emotions dictate what you do in the stock market. We are going to discuss more on emotions in the latter part of this chapter.

Practice The One-Percent Rule

The one-percent rule is something many people follow these days. The rule is not quite stringent, and you can even customize it to suit your particular trading methods. But the rule is quite effective if you want to minimize your losses and yet have a handsome income every month. The rule simply states that when you are making a trade, don't risk any more than 1% on any single trade. But don't get me wrong, suppose you have a trading account of $20,000, it doesn't mean you will be investing only 1%, that is, $200. You can invest as much money as you want, but what the one-percent rule means is that you should take steps to prevent losses more than $200 on any trade.

As you continue trading, you will realize that it is not possible for you to win every trade but if you keep meeting unfavorable situations successively, your capital is going to see a steep decline. But the one-percent rule is going to prevent that from happening by a great range.

Set Your Own Take-Profit And Stop-Loss Points

This is another very important step and you should do this when you are planning your trades. Let me first explain the meaning of both these points, and it will become clearer to you as to what I am trying to say. The take-profit point is the price point that you fix as a trader at which you will make a profit after selling the stock. This is important in situations where a stock has already made a big move in the upward direction and now it is approaching a state where it might face some resistance. So, before any kind of consolidation happens, you should consider selling your stocks.

Then, there are stop-loss points where you have determined a price at which you sell the stocks and accept the loss that comes. This is basically an exit strategy that you need to have in place in case things don't go as planned. Usually, traders have this mentality to stick to the trade even after one loss because they think their losses are going to come back when it actually doesn't. But if they set a stop-loss point, then they can prevent any more losses from happening.

Always Calculate Your Expected Return

If you want to calculate your expected return, you first have to learn what I mentioned in the previous point. But calculating your expected returns is such a good way of rationalizing your trades. No matter how much I stress on its importance, it is not going to be enough. Once you start doing it, you will be able to go through your trades, compare them, and then move forward with only those that might seem profitable to you.

If you want to know the formula for the calculation, then here it is –

[(Take Profit % Gain) x (Probability of Gain)] + [(Stop-Loss % Loss) x (Probability of Loss)]

Hedge And Diversify

You must have already heard it several times in your trading career that you should not be putting all your eggs in one basket. This is because if you do it, you will be setting yourself up for a loss and nothing else. Suppose all your money is in one stock, and for some reason, the stock does not perform the way you wished it to. So, you are going to incur a huge loss. That is why your investments have to be diversified not only across different industries but also the geographic location. Sometimes, you also have to hedge your position. If you don't know what hedging is, it is basically a strategy that helps you in minimizing your losses when you choose a related asset and occupy the opposite position in it so that your losses can be minimized.

Trading Psychology

You cannot let your emotions take over you when you are trading; otherwise, it can cause great havoc and loss. If you talk to someday traders who have been doing it for years, they will all tell you that you require a lot of mental toughness if you want to be successful in day trading. No trade is going to be an exact match with the last one you had. But you are to face a ton of problems if you don't find it in yourself to carry on with the trading strategy that you first thought of and this is what leads to skipping trades or entering or exiting at the wrong time. The most common mistakes in trading are made due to psychological reasons and we are going to discuss some of the major ones here so that you don't end up making them as well.

Not Being Confident With The Method

Sometimes traders think of a strategy, but when it comes to executing the same, they take a step back. To avoid such situations, you have to be confident with the strategies you decide to follow. One of the best ways to do that is to keep practicing the strategies until they become your second nature. Yes, it will take a lot of time and is not going to happen in a matter of minutes, but it will also help you in the long run.

Trading When You Are Unfocused Or Sick

When you are carrying out your day trading strategy, it definitely takes a lot of mental effort and concentration, and if you are not fully focused because something else is on your mind or maybe you are sick, then you will have divided attention. You are more likely to miss out on good opportunities because you don't have the required mental energy. So, if on a certain day, you feel tired, or you simply don't want to trade, then stop. Trust me; this is the best way to prevent losing any money.

Not Preparing For The Trading Day

Day trading is a complex thing and it is mostly for those who do it for a living because of the reason that you need to be fully invested in it. But even if you are busy with some other things, make sure you prepare yourself for the trading day, for example, learning about any recent news, checking the stocks, and so on. You should have your own routine specifically meant for day trading so that you do not miss out on anything.

Letting Past Failures Affect The Newer Trades

Winning and losing is just a part of the trading process. You cannot win all trades, and in the same way, you will not be losing all of them either. If you notice a good opportunity for profit, go grab it. Don't let failures for yesterday affect your decision in any way. Traders often make this mental error that since they lost the last trade, they are going to lose this one too. Similarly, if you had won the previous, don't let that drive you into too much greed or make you arrogant. You have to remember that your mind should only be on the trade that you are currently doing and not on the past or future ones. Winners tend to stretch the thresholds of the strategies, but every strategy has some limits and you have to abide by them. You have to make a reasonable assessment of whether you are going to win a trade or lose it and then decide whether you are going to invest your money in it or not.

Chapter 3: How To Find Stocks For Trades?

As you already know that in the case of day trading, the ultimate aim is to buy stocks and then sell them on the same day. The trading procedure utilizes the intraday price of a particular asset to its full benefit and also exploits the factor of volatility. But before we jump into the details of day trading, you have to learn how you can select the stocks that for your trades. It can definitely be an overwhelming task if you don’t know how to do it, especially because the market is going to provide you with so many options to choose from. Read on to find out everything about the stock selection process with respect to day trading.

Find The Stocks In-Play

It is always advised to day traders that they should be trading Stocks in Play because the trading opportunities offered by their volatility are huge. If you look at the company stocks, you will notice that they do not move as fast as you want them to for day trading. They have major price swings, only two or three times a year. When you are day trading, you need to find a scope for quick entries and exits and that can be provided to you by the Stocks in Play. Also, the Stocks in Play in the market on any particular day do not remain the same. They keep changing. You have to check the news in the morning because the news has a direct impact on these stocks. But to give you an example, some of the major Stocks in Play are Facebook, Apple, Amazon, and HSBC.

If you want to find these trending shares, you are probably going to get them on the platform of your broker because most of them have that option these days. Some of the platforms might even offer you the chance of free screening so that you do not have to do the hard work in determining which of the stocks are moving fast. In order to keep track of any major news on companies, you should keep an eye on the BBC, Bloomberg, and CNN.

Float And Market Cap

There are several metrics that have the ability to influence the price of the stock but the stock float is probably the most important one. That is why the float is also important when you are trying to choose the stocks for your trades. Many people do not understand the process and start picking stocks randomly but that is not the way. You will find that there are insider-owned shares and freely tradable shares in the total number of tradable shares. We do not usually look into the insider-owned ones because of a very simple reason, and that is – they are not usually liquid and come with a lot of restrictions.

On the other hand, the shares that are free-floating are actually owned by general investors. But in some cases, they are also held by certain institutions like hedge funds and pension funds. When we refer to the term float, it refers to the total number of stocks that can be traded freely, and in simpler terms, it can also be used to determine the liquidity. When the stocks have a high float, their prices become predictable, but do you know why? This is because the higher the float, the greater the volatility, and high volatility means that any big moves can be easily absorbed. So, betting on a high float stock is always safer.

There is another term known as market cap or market capitalization and it is very similar to the free float. Sometimes you will notice that it is a market cap that is used for arranging the companies. The size of the company is what market cap denotes or in more accurate words, the company's valuation. If you want to find the market cap of a company, multiply the outstanding shares of a company with the number of shares that are there at the present stock price. The market cap method also includes the insider shares, but if you use the free-float method of calculation, it is similar to the market cap, but the only difference is that the insider-owned shares are not included. You have to pay attention to both the float and the market cap of a stock if you want to be careful.

Pre-Market Gappers

The pre-market session is something you should keep a close eye on if you want to become successful in day trading. This will not only help you assess the sentiment of the market but also get a rough idea about the strength of the market. Based on the Sensex or Nifty index, the pre-market assessment will help you to understand whether the market is going through a bearing sentiment or a bullish sentiment. You will be able to examine the top 5 gappers, which are so essential. You should also check the stocks' pre-market volume data.

The usual trend is that when the opening gap of a stock is high along with a high volume, such stocks usually remain in high demand. Similarly, when the stocks show a big gap down along with a high volume, you can predict them to follow a bearish nature for the rest of the day. The assessment of pre-market sessions will also help you analyze any downward or upward momentums that are being developed for any particular stock, and these are excellent indicators for the performance of stocks. If you maintain a closer look at these metrics, you will be able to pick your stocks more efficiently and also narrow down your trading strategies to the ones that would help you bring home more profits.

Real-Time Intraday Scans

Using stock scanners can really change the game when it comes to day trading. You will be able to pick your stocks more efficiently and the best part is that the process becomes so much easier with programs doing the work for you. Stock scanners are nothing but software that is specially designed to scan through the numerous stocks in the market and then can perform this scan based on the criteria that you set for them. Just imagine, whatever your criteria are, you just have to set it and click on a button, and all those stocks will be listed in front of you within a minute. And if you were not using these scanners, then you would have to scan through the charts manually that can take forever.

There are different types of stock scanners available but for day trading, you need to go for the ones that allow intraday scans. Once the market is open, if you want to monitor the real-time action of these stocks, then a stock scanner is your best option. The intraday scanners are more robust than all other types mostly because they analyze the real-time data and they do it in the blink of an eye.

If you want to see which stocks are on top of the 50-period moving average, you can do by selecting the criteria and performing the scan. Some of the aspects of these intraday scans that make the process of picking stocks even easier are as follows –

You Can Set Alerts

Whenever something unique happens, and it might be of help to your trade, you will be notified through alerts. In this way, you are not going to miss out on anything and spot the hottest trends right away.

You Can Build A Watchlist

The stocks present in the market are literally uncountable and if you are looking for perfect trading opportunities, only a handful of stocks can provide you that. But these stocks might not always be in the same sector. In fact, they belong from different sectors, and that is why you can set up watchlists to monitor stocks closely and keep an eye on their performance, especially when that particular sector is doing good.

Planning The Trade Based On Scanners

Using the stock scanners, you can perform an analysis of trading breakouts, and the EOD scans or the end-of-day scans are the ones that can particularly help you prepare for the trade that you are going to perform the next day. This is mainly because the criteria for such scans are the closing prices. When you can get all this information in your hand, planning your trades will become easier, and you will have it all figured out. This will minimize your chances of any loss in the market. Moreover, when you learn to use these stock scanners the way they should be used, you will find that it becomes much easier to navigate through all the noise in the market and place all your focus on the stocks that you are concerned about. If this technology was not there, then picking out the right stocks would have become so time-consuming.

Chapter 4: Assets 101: Stocks, Bonds, Currencies, And Commodities

If you consider the global markets, there are multiple assets that are tradable through day trading, and we are going to discuss some of them in this chapter. But before we move into the details of these assets, let me give you a few characteristics that these assets should possess in order to be used in day trading –

- **Liquidity –** The liquidity of the assets that you choose for day trading should be high because buying and selling occur within the same day and high liquidity would make the process easier and increase the efficiency of the process.
- **Volatility –** The volatility of the assets also has to be high because this is a prerequisite for anything that you want to trade on a frequent basis. This will give you a scope of earning profits more frequently.
- **Transaction Cost –** If something has a high cost of transaction associated with it, then it cannot frequently be traded; otherwise, it will be your profits that will be affected. So, the transactional costs have to below if you want to get into day trading.
- **Leverage –** Next comes the topic of leverage and let me ask you something, would you be able to engage in efficient trading if you had to hold a huge amount of trading capital? The answer is no. That is where leverage comes into play. It is because of leverage that you will be able to get into higher trading proportions even with limited capital. But you also have to understand that you are walking on a double-edged sword here. It is true that with leverage, you are exposing yourself to greater profits, but you are also equally exposing yourself to greater losses.
- **Information Availability –** Whatever assets you are trading, there is something that you have to maintain for all of them and that is – you have to stay up-to-date with any form of news related to the asset. That is why your choice of a broker becomes so important

because there are some brokers who will readily provide you this information, whereas there are some who are not so updated on the news part.

Now, based on the criteria that I mentioned above, we are going to discuss the different assets that are usually day traded.

Basics Of Stocks For Day Trading

It will be a completely dynamic experience if you decide to use stocks for day trading. The most important thing to understand is that there are no problems when it comes to buying or selling shares.. Moreover, for any beginner, I would say that stocks are the best approach because of their ease of understanding. If you want to trade stocks effectively, you have to work on finding the right opportunities to enter or exit the market and this will depend on both volume and volatility if you don’t know what I am saying read on to find out.

Volume

In any specific period of time, the total number of shares that are being traded are referred to as the volume with respect to a particular security. The total volume increases whenever you are making a new transaction. Now, you must be wondering how volume is used in the market. Well, a move is considered to be significant based on the greater volume it has. Your aim should be to look out for any stock that has shown a sudden increase in volume. For example, let us consider that the usual trading volume of a stock is 2 million shares every day, but on a certain day, it has already crossed the mark of 5 million by 11 am, then that is something you should look into.

Volatility

The next aspect that we are going to discuss with respect to stocks is volatility. It will help you with the percentage of unpredictability or risk associated with the trade. When any stock is said to have a high range of volatility, in simpler terms, it would mean that the change in price will occur over a large range and so the spread is more. Thus, the price can fluctuate within a very short period of time, which is what a day trader has to take full advantage of.

The beta value is something that you can effectively use to predict the volatility of stocks. The value compares the volatility of any particular stock with that of a benchmark, say the S&P 500.

Now that you have gone through the two factors, you should have understood that if you want the best stocks for your trade, you have to look for anything that has shown a high spike in volume and at the same time, the beta value should be more than 1.0. In fact, the greater the beta value, the better it is for you. Apart from this, the strategies that you use will also play a role in determining whether you will be making a profit or not.

Understanding Bonds

A bond is basically a financial instrument whose main purpose is to raise money and it can be sold and issued by several entities, including the government. When you buy a bond as an investor, you will receive a coupon, or in simpler terms – interest. There are different types of bonds, like government bonds, perpetual bonds, indexed bonds, municipal bonds, high-yield bonds, convertible bonds, and so on. However, let us see how bond trading unfolds in the field of day trading.

The ETFs or Exchange-Traded Funds are the best way to trade bonds in the case of day trading. You can also use any equivalent of ETFs. In fact, bonds are actually traded in the form of an equity product. The index followed by the bonds depends on the underlying security and in order to make them suitable for day trading, these underlying securities should have high liquidity. If you consider the bond market in general, you will see that in order to participate in it, you will require a lot of capital, and the markets are not so much liquid as well. That is why the bond market is something most traders don't look into. But in today's world, you will get an ETF for almost every type of bond.

However, before you dive into bonds for day trading, I must warn you about the two main risks that are involved –

Credit Risk

This risk exists because it is considered that the interest and principal payments might not be cleared by the bond issuer. The credit quality of the bond issuer, be it the government or any corporate entity, is found out by comparing the metrics of their cash flow with that of their debt load.

Interest Rate Risk

There are two components to this particular risk and they are – convexity and duration. On any fixed-income investment, the time taken to finally reach the break-even point is termed as the duration. In the case of the bonds, the interest rates increase with the duration of the bond. But the prices of these fixed-income bonds are inversely related to the yields. In short, there will be a decrease in price with an increase in yield.

However, the other component, that is, convexity – it provides a much better measure of the risk involved. This particular term is basically a measure of the relative change in duration with respect to any ups and downs in interest rates.

Currency Trading

Currency trading is definitely one of the most exciting things about day trading. If you consider the global market, then you will understand that the transactions taking place between banks, governments, businesses, and so on, can easily amount to trillions of dollars. You also have to keep in mind that the exchange rate keeps changing, so whenever there is a blip, you stand a chance to make money with currency trading.

Moreover, even if we combine both the bond and the stock markets, the currency market will still be the most liquid one and so perfect for day trading. One of the greatest assets of day trading is foreign currencies. And you should also know that you don't have to worry about the hassles of tax with certain currencies. But they are not day trades since they are based on a much longer-term. What I am trying to say that if some firm is claiming that they can give you completely tax-free income through currency trading, you need to first know all the details before you step into it because it might not be day trading at all.

Now, let us go into the details of how the trading is done in the case of currencies. The price of the money is determined by the exchange rate. This will tell you how many pounds, euros, or yen you are going to get with one dollar. This price will also give you business and investment opportunities. Let me give you an example to make it clearer. For example, if American business persons see that Japan has a great opportunity where they can make profits, they will be buying supplies, paying rent, and other things required to set up the business and for that, they have to get Japanese yen by trading the dollars. In this way, the demands of yen increase, which leads to the hike in price for that of the yen.

As a day trader, you can take the help of currency dealers or your broker to open a dedicated forex account. This will ensure that whenever you notice any opportunities throughout the day, you can trade.

Trading Commodities

Commodity trading is something many people are interested in today's world, but it is not that much easy as the above three types of assets. If you want to make it a good venture, you will have to take certain steps. But first, let me tell you what commodities are. They can be anything in terms of products and raw materials like gold, silver, copper, and even grains.

The value of commodities is usually inflation-adjusted, which means that the increase in prices of commodities occurs at the same rates as that of the overall economy. But this also means that if there are any short-term changes in the demand and supply chain, it is going to affect the commodities. And these changes are what paves the opportunity for day trading. One of the best things about commodities is that people need to eat no matter what – even if the prices of stocks have dipped to zero!

But if you are thinking that you are going to go and buy the commodities directly, then no, that is now how the commodities are traded. You basically have to look up to some other form of investment in order to perform day trading. The process that is adopted by most people is the purchase of future contracts. The prices of these contracts are totally dependent on the price of the underlying commodity and so they change their price accordingly. There is another way of trading commodities and that is through the ETFs.

But keep this in mind that if you want to make some serious money just by trading commodities, you have to be serious about it. Your trading plan should be tested and well-researched. Make it as full-proof as you can. Don’t attempt to take too much risk on yourself; otherwise, you might end up losing all your money. Yes, at times, it might be tempting, but you have to remind yourself that at the end of the day, it will not be worth the risk. Like I told you at the beginning of this book, every trade is not going to work, and so you have to trade the best and leave the rest.

Chapter 5: Assets 102: ETFs, Cryptocurrency, Options, And Derivatives

In the previous chapter, we have already covered the basic assets that you can use while day trading, that is – stocks, bonds, currencies, and commodities and now, in this chapter, we are going to discuss some other assets that can help you overcome the limitations posed by the previous ones. The assets that we are going to discuss in this chapter sometimes can pose to be very good alternatives to the ones mentioned in the last chapter because of better features than their counterpart.

Trading ETFs

Before we move on to the topic of ETFs to day trading, let me explain what ETFs or exchange-traded funds are. Assets like bonds or stocks or any other type of security are formed of shares, and each of these shares that are present in a collection of such securities is termed as ETFs. ETF itself is tradable security. It is because of these ETFs that you can consider trading some entities which would not have been possible otherwise. When it comes to the topic of profit generation, ETFs can help you grow your account in a very short time very quickly only if you implement the right strategies. They are quite versatile and no matter what your trading style is, you can use ETFs as long as you take care of the risk involved. If you want greater exposure to any particular sector, then ETFs can offer you a cost-effective method of doing so. But do you know what makes ETFs the perfect asset for day trading? It is high volatility.

Components Of ETFs

If you want to understand ETFs, you have to know about its two components –

.**Creation Units** – Brokerage firms or trading firms are known as the authorized participants, and the creation units are held by them. It is by these units that they add to the fund and commit their cash.

But they can also get the actual securities that are present under the fund in exchange for their shares and if you consider the alternative, they even hold power to form newer creation units by adding the right securities to the fund. This will ensure that the ETF value stays consistent with that of the market index.

.**Retail Shares** – Since I already mentioned that creation units are not for everyone, what you get is retail shares. They can be sold or bought by investors and traders, and that is why they are listed on the exchange. So, for anyone who has come into ETF trading, you have to remember that you are trading the retail shares.

As you learn more, you will realize that ETFs are mostly like individual stocks and if you have any prior experience of stock trading, then this is going to feel the same.

Benefits Of Day Trading With ETFs

Now, here are some advantages that you should know of –

.**Flexibility –** One of the best things about these assets is that there is no fixed time as to when you can buy them or sell them. You can do that at any time. You can trade them with margin or in cash or you can even use your brokerage account. And all of this flexibility is why you should consider day trading with the ETFs.

.**Versatility –** If you want to get some exposure to different sectors of the stock market, then I think ETFs are one of the best ways for you to do so as a day trader.

.**Unlimited Options –** The availability of ETFs is everywhere, starting from the big market indexes to even international stock indexes and so you are getting an unlimited array of options.

.**Affordability –** Let me give you an example and this will become easier to understand. Let us say that you want to invest your money in gold, but if you want to buy gold coins or bars, that is going to cost you a lot. So, you can opt for a cheaper yet effective alternative, that is, an ETF that follows the price of gold.

.

Finding Opportunities With Cryptocurrency

If you consider the last few months, you will notice that the use of cryptocurrency in terms of day trading has seen a spike. But you have to keep in mind that day trading in invented currencies is not everyone's cup of tea. Some of the aspects that you have to keep in mind if you decide to trade in cryptocurrencies are as follows –

Volatility

You already know that volatility is something you need for your day trading strategies to work. But you also have to understand that cryptocurrencies are extremely volatile. In a single day, sometimes the prices of a coin can rise by as much as 15% of more and fall by the same value. There was an incident in February in 2018 when there was a cryptocurrency termed as E-coin and in twenty-four hours, the value of the money had increased by 4000%, but after that, the price came down to right where it was before. That is how day trading can be helpful. The money that you use to buy the coins at the beginning of the day can easily be multiplied.

Accept the Losses

If you are trading in cryptocurrencies, then you have to make yourself understand something – nothing has any kind of certainty, and things might just go off the plan. But you have to understand that losing any trade is just part of the process. No matter how successful a person has become, even they face losses now and then. But the important lesson from here is that you should not try to run behind your losses.

Set Stop-Losses

If you are trading cryptocurrency, then you have to set a particular stop-loss to minimize your losses. When you have set a stop-loss for your trade, you will be made to exit the trade automatically when you reach that price.

Let us say that you bought a certain cryptocurrency at $600 and you have set a 10% stop-loss. Then, if the price of that cryptocurrency went down to $540, you will be made to exit by the system. It is programmed in the system in that way and this will save you from any sudden decline in price.

In the same way, there is an option for you to perform a limit sell order. With the help of this option, you can set a higher price at which your trade will be automatically closed if the cryptocurrency hits that price.

Finally, if you want to trade cryptocurrencies, you have to always be on the top of everything and know what's trending when. For example, some of the most famous cryptocurrencies are Bitcoin, Litecoin, and Ethereum, but there are several other options too, and you should keep an eye on all of them. Although the potential for incurring huge losses is high in the case of cryptocurrencies because of their high volatility, on the contrary, the potential for bringing home huge profits is also high.

Exploring Options

Nowadays, even options can be included in the scope of intraday trading practices, but in the older days, it would not have been possible. An option is a type of financial derivative. But there is a pre-determined date in the case of options within which you have to buy or sell them. Before expiry, either the buyer or the seller has to exercise it; otherwise, it will have no value. There are different types of options that you can use in day trading like futures options, ETF options, stock options, and so on. Since all of these examples that I have are the traditional options, they are also known by the term 'vanilla' options.

Why Should You Trade Options?

If you are confused as to why you should select options, well, I can give you numerous reasons for doing so. Let us explore those reasons one by one –

.**Low-Cost –** Day trading options lowers the cost a lot and so you can enter and exit the trades as quickly as you want without incurring any huge charges. At the same time, if you make such quick entries and exits in stocks or mutual funds, it increases your risk, which is not the case with options. Moreover, if you compare the amount of money required to purchase the underlying asset with that of the amount required to purchase the option, you will see that options are much more cost-effective. In short, you require a much lesser amount of capital and yet have control over the same number of shares.

.**Diversification** – It is because of the low-cost nature of options that you will have more money left in your hands and so, you can diversify your investments more. This will, in turn, increase your chances of profit.

.**More Benefits –** When there are any movements in price, the benefits that you are going to get by trading options is much more than what you would have got by trading stocks. For example, suppose there was a change in the price of a stock from $30 to $60, which means there is a 100% increase. But let us say, the price of an option contract moves from $2 to $10, here, you are getting an increase of 500%. So, your profits are way more with options than they are with that of stocks.

Apart from what I have mentioned above, when you trade options intra-day, your profit potential increases even more.

Disadvantages Of Options

Let us also look at some of the major drawbacks that you will face in the case of intraday options trading. The obstacles that I am going to mention below might arise in your path as well, but the good news is that all of them can be overcome by following certain steps.

.The bid-ask spreads in the case of stocks are not as wide as the ones in options. This is because, despite the numerous benefits of options stated above, they are not quite liquid like that of stocks.

.In the case of options, there is also a time factor that comes into play. So, no matter how much increase the underlying asset has seen, if there is a loss of time value, then your profit can be compromised.

I have mentioned these drawbacks just for your knowledge. They shouldn't be stopping you from trading options. What you should do is come up with a full-proof trading plan keeping the disadvantages in mind.

Understanding Derivatives

When compared to the other types of assets that you have learned so far, derivatives are going to be a bit different. You have to first understand what derivatives are. Well, they are a type of security in which there are either one or multiple underlying assets involved, which also dictate the price of the derivative. What you have to understand is that the derivative in itself is a type of contract that is formed between the underlying securities of the derivatives.

You can trade the derivative over-the-counter or OTC, or you can also trade them on an exchange. There will be some type of standardization done to the derivatives that are being traded on the exchange, while those that are being traded OTC are mostly not regulated in any way. Because of the lack of regulation, the risk associated with that of an OTC derivative is also more.

In the past, the main aim of derivatives was to ensure that a balanced rate could be reached whenever they were internationally traded. Since every country had a different currency and there were a lot of differences to account for, there was a need for balancing the values and derivatives posed as the solution to the problem. Certain derivatives can even be used for hedging. So, if there is any risk involved with the asset, it can be insured.

Chapter 6: Tools And Platforms

One of the most critical and important parts about being successful in day trading is that you choose the right platforms and the right tools. And this is even more important for those who are new to the world of day trading. In this chapter, we are going to discuss more on this.

Choosing A Brokerage

If you are into trading, you probably receive hundreds of advertisements on the best brokers but how will you understand which one of them you should choose? Well, it is quite easy to get overwhelmed at first but there are certain things that you should keep in mind, and the process will become much easier.

Understand What You Need

Before you choose a broker for yourself, you have to decide what it is that is absolutely necessary for you. Think about a couple of features that you think must be present in your day trading broker. Once you have decided which feature is it that you absolutely need, do a simple Google search and there will be lots of options in front of you. Let us say; you are interested in trading options, so what you are looking for is an options broker. Once you have got your search results, move on to the next step.

Check The Broker's Fees

Once you get the names of a few brokers from the search results, you should visit each of their websites to look for more details. See if they have that one feature that you have been looking for. Here are some things that you should note down for each of these brokers that you get on the Google search – platform fee, data fee, trading commissions, inactivity fee, withdrawal fee, whether leverage is available, day trading margins, and required minimum balance or deposit to open an account. After noting down this information, it will become easier for you to compare them. You should weight in all the details and then settle for the broker that is offering you the best services at a low commission and fee structure.

Do Some Background Check

You must know everything about a broker before you settle for one. The first thing to know is whether or not the broker is governed by the authorities. You will get certain free tools online with the help of which you can perform these checks. You should find some information about the regulatory rules followed by the broker and some background information on them. You are most likely to fall for scams when you opt for unregulated brokers.

Do Some More Investigation

This is a step that needs your full focus because it will finally help you choose the broker. Some important areas that need to be thoroughly checked are technical support, customer service, and trade execution. You can contact some trusted fellow day traders who already have experience in the market so that they can share some insight on these brokers. You should also check the online forums where you are going to get honest reviews about different brokers.

Don’t rush through this step. You should take your time to do the research and then if you have any questions, you should ask them on the forums. Always be skeptical about whatever you are reading, but at the same time, be open to everything. Some cases are very common in which traders tend to blame the brokers for the losses they have incurred even though the brokers had nothing to do with it.

After you have gone through all the steps up till now, you have to take your list and rank the brokers you have got.

Obtain A Trial

It is always advisable to stay on trial for a week or so with a broker before finally choosing them. You will be able to play around with the different features of the trading platform and also see how user-friendly the platform is. If you are happy with your experience, you can settle for the broker, and if you are not, check for a trial period from the next broker on the list and see if they have what you are looking for.

Discussing Brokers For Day Traders

The brokers suitable for day traders are not the same as any retail trader for several reasons. The main difference is that in day trading, you are buying and selling assets on the same day, whereas, in the case of other forms of trading, they are mostly long-term. When a new day starts for a day trader, there are no open positions. And when they do trade, it is usually a very high volume of trades that are involved. So, the technical analysis required for day traders is not going to be the same as traditional traders.

So, here are some characteristics of brokers that you should look for as a day trader –

Lower Commissions

Any ordinary trader does not place such huge volumes of trades like that of a day trader. So, to bring home profits, day traders need brokers that won't charge huge commissions like that of a traditional trader. The brokers who especially cater to the needs of a day trader have much-reduced rates for each trade or in some cases; the commissions are based on the number of shares that you are trading.

Commissions For Each Share

Like I already mentioned in the previous point, some brokers do not follow the trade-based commission system altogether and the commission they charge is based on the total number of shares that you have traded. This type of pricing system is going to be very beneficial for day traders because they do not have to pay too much commission when they are performing small trades in larger numbers. They do not have to sacrifice a huge chunk of their profit to the broker and can take home the maximum portion of the money.

Better Short Lists

This is another feature that you are going to get in brokers who are specially catering to day traders. They have much better shortlists. Day traders are looking forward to making profits irrespective of whether it is a bullish market or a bearish one, and if the broker is not offering them a shortlist, then their profit potential is already crippled.

Direct Access To The Market

There are certain day trading brokers that will offer you the chance of being in touch with the market directly. This means that the presence of an intermediary market maker is eliminated. So, all your traders are directly routed to the exchange where they are happening. Do you know what this means? This means that at any given point in time, you will be able to see the trade order in a market. But the major advantage that you are going to get is speed. Since you can access the market directly, your orders are not going to take that much amount of time for reaching the exchange and so your chances of getting orders at much more favorable price increases. In fact, if you can use the algorithmic processes to your benefit, you can even reduce your cost of trades.

So, as you must have understood by now that when you are choosing a specialized day trading broker, you are getting the ability to short stocks, better commissions, and a higher speed of trade execution, which you are not going to get with classic brokers.

Being Aware Of Brokerage Scams

A simple search on Google about the number of scams that happen related to the brokers in day trading is going to startle you for sure. Every type of trading has its fair share of unscrupulous brokers who are waiting for you to invest your money and they will take it all away. That is why it is important that if you are trying to develop a career in day trading, you do a proper background check of the broker and make sure they are viable and reliable. There are a series of steps that you should follow if you don’t want yourself to get involved in any kind of shady dealings of the brokerage scams. Trading, for a beginner, can be already overwhelming and if you fall into a brokerage scam, it can well be a nightmare. So, take these preventive measures so that you don’t have to be sorry later on.

Separate Fact From Fiction

This is the first thing that you have to do in order to protect yourself from all types of scams. I am sure you must be doing a lot of research on the internet about the broker that you should choose but when you open those forums and read the conversations made by your fellow traders, it can become difficult for you to understand what is the truth and what is simply fiction. If you see that there are several negative comments stating that they were not able to make a profit because of the broker, probe deeper into the matter and see whether it was really a fault of the broker or not. Most of the time, you will notice that it was because of the trader’s own bad strategies that he/she failed.

One of the very common things that you are going to notice in the online comments section is that the trader incurred a loss because the broker was deliberately and intentionally trying to cause that loss. If the traders are saying – ‘the trades never worked in my favor,’ it is probably not the fault of the broker.

But there are also occasions when the fault might have been the brokers. You have to learn what those situations can be. Sometimes, there are reports where stop orders were triggered because of the abrupt movement of quotes, which was done by the brokers. These are very rare cases because, at the end of the day, the broker is going to make money when your trading volume is more.

Make Sure You Communicate With The Broker

Communication is really the key when you are trying to identify whether your broker is a part of a scam or not. If you have been trying to ask something important and yet your broker is trying to avoid your questions or not answering in the right way, then that might be a red flag. This is when you have to understand that the broker does not have your best interests at heart. If a broker is really legit, they will try their level best to help put their customers and maintain a good relationship.

Do A Thorough Research

There is nothing better than a thorough Google search when it comes to detecting broker scams. See if there have been any legal actions taken against the broker ever. If yes, then you have to check what it was about. If you notice that some user has filed a complaint and withdrawn funds, then you can try to contact that user. Hopefully, you will find a number or email somewhere, and then you can know more about what happened. Before you open an account with the broker, don’t forget to read all the details and instructions. You will also learn about any kind of contingencies that might be mentioned in the fine print.

If you are of the opinion that just because you are choosing a popular firm, you are going to be safe, then you are wrong. It is not always the case. It is true that you are going to get a more standardized service from the big brokers but the financial crisis that happened in the years between 2008 and 2009 definitely taught us that not all big brokers can be blindly trusted.

Chapter 7: Introduction to Candlesticks

Whether you are just a beginner or you have been trading for quite some time, I am sure that you have come across photos where a person is looking at charts on the screen. These pictures are probably found in every online article about trading. And I guess you have wondered what these charts really mean? Well, don't worry because we are going to discuss exactly that in this chapter. Charts are of different forms and not one and candlesticks are the most common ones out of them all. They consist of greed and red-colored rectangles and they are also known by the name of Japanese candlesticks. I am going to walk you through the details of these candlesticks in this chapter.

The main purpose of candlesticks is that they are used for showing the major price indicators like the High, the Low, Open price, and the Closing price. The techniques followed in these patterns were initially developed in Japan and hence the name – Japanese candlesticks. The distinctive patterns formed by these can actually tell you whether a trade is going to be profitable or not, but yes, for a correct interpretation, you also have to learn to study these patterns in the right way. There are different names given to these candlestick patterns like the Shooting Star, the Hammer, Dojis, and so on.

Now, let us move on to a brief history of candlesticks. Their origin dates way back to the 18th century in Japan. Munehisa Homma was actually one of the first persons to predict future prices with the help of historical price action. Initially, Homma was trading in Sakata at the local rice exchange and this was in the year 1750. Later on, he started trading in the Dojima Rice Exchange.

Price Action And Mass Psychology

Before we move into the details, let me give you an idea of the different parts of candlesticks.

The body of the candlestick is comparatively the thicker area and it shows the range between the closing price and the opening price. You will notice that both above and below these candlesticks, there are thin lines, and they are known as wicks or shadows. These points are what determines the highest and lowest price points on any particular trading day.

If you want to find out where you place your take profit orders, it is these wicks that will help you determine that. This is because you get to know the minimum and maximum prices for any trading session from these wicks. Let us say you are in a long position; then you can choose the top of the wick for placing your take profit order. You can also figure out the support and resistance levels from the same closing price and opening price.

If you notice that the color of the body of a candlestick is white or green, then you will understand that the opening price is lower than the closing price. On the contrary, if the body is black or red, then the opening price is above the closing price.

The flexibility of the candlesticks patterns is one of their major benefits and you can even use them in combination with some other technical indicators. However, you have to keep in mind that you are not going to get any help regarding price targets from the candlesticks. What you are going to know is when you should enter a trade and when you should close it. You can even know about the direction of price movement from certain candlesticks.

Let us say that you want to analyze a ten-minute time frame then the candlesticks will show you a lot of things in that time frame, for example, the low, the high, the close price, and the open price in that span of 10 minutes and also show you the direction in which the price had moved in those 10 minutes. Overall, you are going to receive unique insights from these candlesticks, and they will also help you point out the turning points in the market before anyone else. You can even figure out the sentiments involved in the market, and that is what market psychology is all about.

Bullish Candlesticks

Now that you know the basics of candlesticks let me tell you what bullish candlesticks are – when the closing price is above the opening price, that is when it is referred to as a bullish candle. In this section, we are going to discuss some of the common bullish candlesticks –

Bullish Hammer

Whenever there is a downtrend, you are going to find a bullish hammer. It is named so because it is hammering from a bottom. It is not a composite but rather a single candlestick pattern. Close to the top of the daily trading range or at the top, you will find a small body and a long lower shadow. This is what the bullish hammer looks like.

The recognition criteria for this pattern is as follows –

- .The characteristic of the market should be a downtrend that is prevailing for quite some time.
- .At the upper end of the range of trading, you should notice a small body. But remember that the color of the body here is not of any significance.
- .But make sure that the lower shadow length is at least double that of the body.
- .The upper shadow is non-existent.

This kind of candlestick shows a downtrend and once this downtrend is over, the high of the day will be reinstated. But yes, the selling side of the market will not continue, but the market psychology conclusion that you get from this candlestick is that the bearish sentiment reduces, which is why those who possess bearish positions, especially the short traders, start worrying. For the bulls, it will be a better position, if the body of the candlestick has the color white.

The top of the hammer's body is the confirmation level and if you want confirmation, then the prices will have to cross this level.

On the contrary, the last low is defined as the stop-loss level.

Bullish Belt-Hold

This is also a single candlestick pattern and it is also seen when the market is in a downtrend. If this particular candlestick appears, then it suggests that the prevailing downtrend of the market might undergo a reversal. If the formation of this candlestick is near a support level like moving averages, or trend lines, then its potency is even more enhanced.

The opening of this kind of candle also happens at the low of the day. After that, it starts moving towards the high, and you will notice that towards the top of the candle, there will be a small shadow. You should consider the resistance to be strong when the belt hold has longer bodies.

So, some of the recognition criteria for this type of bullish candlestick are as follows –

- .There is a prevailing downtrend in the market.
- .The opening happens at the low and then the closing happens towards the high of the day.
- .There is no lower shadow of the long white body.

You can expect this type of candlestick on almost all time-frames but the chances of them being formed on the weekly and daily charts are more. But there have also been occasions when the bullish belt hold was not a turning point but rather a small pause. So, if you want to confirm the patter, I would suggest you wait a bit if you notice that the price has started trading above the belt hold that is when you should decide to make an entry.

Bullish Engulfing

The previous patterns that you saw where single candlestick patterns, but this one here is a reversal pattern consisting of two candlesticks. The first one is considered to be the real body, and the second candlestick completely engulfs the first one. The tail shadows are not of any concern here. You will see this type of pattern when the market is in a downtrend and there is usually a hollow candle and a dark candle, and the dark candle precedes the hollow candle, which is also larger in size. So, on the first day, you will notice a black candlestick, which is proof of bearish trend, but on the next day, there will be a white candlestick of a large size (following the black one) which shows a bullish trend. The body of the hollow candlestick will completely engulf the previous one.

Now, let us discuss the type of trader's behavior that this type of candlestick pattern will tell you. When the black candlestick appears on the first day, the selling volume will reduce amidst the downtrend. On the following day, there will be new lows at which the market opens. You will feel like the bearish trading is going to continue, but the momentum of the downtrend gradually reduces, and the market starts becoming bullish. The selling factor is overpowered with the buying emotion, and when the market closes, it is above the previous day's open. There is no longer a downtrend.

Bearish Candlesticks

A bearish candle is when the opening price is higher than the closing price and in this section, we'll have a look at some of the common bearish candlestick patterns.

Bearish Hanging Man

When there is an uptrend, you will find the hanging man at the top of the trade. Do you know why it is called a hanging man? This is because the structure of the candlestick is such that it looks like a hanging man. The pattern comprises a single candlestick, and the lower shadow is quite long, and near the top of the daily trading range, you will find the body.

The main representation of a hanging man is that it might indicate a reversal of the uptrend. But you should not make your decisions based solely on this factor; otherwise, your endeavor might make it risky. Also, if you want to understand market psychology, the hanging man is where you should start with it. Once the bearish hanging man happens, the uptrend is no longer as strong as it was before.

Bearish Belt Hold

This is another single candlestick pattern that I want you to know about. The opening for this occurs at the high of the day and then during the course of the day, you will start noticing a fall in the price. This happens against the usual trend of the market, and as the price nears the low, the fall stops and at the bottom of the candle, a small shadow forms.

Some of the criteria for recognizing this pattern are as follows –

- .The overall market should show an uptrend that is prevailing.
- .The candlestick should be in the form of a long body that is completely black, and you will not observe any form of upper shadow.

.The opening happens at the high and closing happens at the low.

When this candlestick appears, the market opens at a considerably higher stage, and there is quite a big gap in the direction in which the trend of the market currently is. But once the market opens, things start changing fast and from that point, there is a reversal in the direction of the market. The bulls are left in worry and they end up selling a lot of their positions. And this is also why the trend starts reversing again and triggers a sell-off.

Bearish Engulfing

In the previous section, you had learned about bullish engulfing, and now, I am going to explain what bearish engulfing means. Well, it is quite the opposite since, in this type of candlestick pattern, it is a black body that engulfs a white body and not the other way around. And you will notice this pattern during an uptrend. The importance of the pattern lies in the fact that it shows the buyers have been overtaken by the sellers, and the price is being pushed down more aggressively than the efforts shown by the buyers to push the price up. In the case of choppy markets, this pattern does not have much significance.

The reliability of this pattern is more the engulfing candle has an open price that is way more than the first candle's closing price and the same applies to a situation where the engulfing candle's close price is way lower than the first candle's opening price. But before you decide to act based on this candle, you should wait for a couple of seconds to close. If this bearing engulfing pattern happens, you can sell a long position, or you can also enter a short position. If you decide to do the latter, then your stop loss should be fixed on top of the two-bar pattern's high.

Indecision Candlesticks

If the candlestick pattern does not have any directional bias whatsoever, it is termed as indecision candlesticks. In simpler terms, you will not be able to predict what the path of the market is going to be. Usually, you will find these at the time of consolidation, but sometimes, they might even form at the time of resistance or support. They only signify that during a certain period of time, no one won the battle – neither the sellers nor the buyers. So, the most common question in everyone's minds is that what should you do when faced with indecision candlesticks? Well, if I had to answer in short, then I would say – 'do nothing.'

When the indecision candlesticks crop up, they will not give you any hint on who is in control – whether it is the buyers or the sellers and that is why it becomes impossible to guess the next move of the market. So, the best decision would be to stay on the sideline. The pressure of both buying and selling has received a steadiness, and that is what the indecision candlesticks suggest.

Here are some indecision candlestick patterns that you should know about –

Spinning Top

When both the buying and selling pressure is trying to get full control of the market, that is when the spinning top pattern forms. If you want to recognize this particular candlestick, then there are two ways of doing so. The first way is that both the upper and lower shadows of this candle are long and secondly, the body of the candle is small.

There are two things being indicated by the formation of this pattern. For starters, it indicates that both sellers and buyers are currently in an aggressive state. This is exactly why both lower and upper shadows are formed. Secondly, no one can have the upper hand in the end. In simpler terms, when the spinning top pattern appears, it shows that the market is in a considerably higher state of volatility and there is no clear picture of who is going to win in the end.

The Doji Pattern

This is another pattern that is indecisive in nature, and it forms when there is equilibrium between the buying and selling forces of the market. Recognizing a Doji is easy, and you can do it in two ways. Firstly, both the opening and closing position of this candle is going to be in the middle range and secondly, both lower and upper shadows are present, and both of them are short. In fact, both the shadows almost have the same length. But there are two types of Doji patterns, and there is a difference between their importance which I am going to explain to you now –

.*Dragonfly Doji* – This is not similar to the usual Doji because the opening and closing of this pattern happen towards the highs. Also, the lower shadow is quite long in this case. This pattern occurs because the pressure of the buyers has pushed the market to a place with a greater opening price, and the lower prices are being rejected.

.*Gravestone Doji* – The second one is also different from the usual Doji because the opening and closing of this one happen in the lows. The upper shadow of this pattern is long. In contrary to the dragonfly Doji, this one shows as an increase in selling pressure and, consequently, pushing the market to a level that is closer to the opening price, and it also shows the refusal of higher prices. In fact, you can call it the gravestone for bulls.

So, now that you have completed this chapter, you must have realized how important candlesticks are in determining the price action, and they also help you find the balance between the selling and buying pressure of the market.

Chapter 8: Picture This – Technical Analysis

If you want to be successful as a day trader, one of the most important things that you have to hone is spotting trends when they come. And for that, the most important thing for you is technical analysis. The basis of this analysis is that trends lead to a change in the price of securities, but at the same time, these trends repeat themselves over time. You can use a chart for plotting the volume, time, and price of all this information. Once you have plotted these, you will find that patterns are forming, and these patterns will help in the analysis. Read on to find more on this subject and see how you can measure the supply and demand in the market with the help of technical analysis alone.

Comparing Research Techniques Used In Day Trading

When you are into day trading, you have to speed up your decision-making process, and that is why it is important that you have the framework ready for it.

Fundamental Research vs. Technical Research

When you are analyzing data for making decisions in the stock market, there are two types of research that you can rely on – fundamental and technical. But do you know how they differ from one another?

.In the case of fundamental research, you will be looking into news reports and historical reports to find out the reason behind a particular stock market movement. In the case of technical research, you will be studying share volumes and price patterns.

.There are different ratios that will help you perform the fundamental research, whereas, in the case of technical research, you will be studying different types of charts.

.Fundamental research is more suitable for traders who are going to remain the market for the long-term, and that is why some people will tell you the fact that for day trading, fundamental research is not really useful, and we are going to discuss it in more detail right after this. On the contrary, technical research is very helpful for anyone performing investments or trades in the short-term.

Now, if you are wondering why I said fundamental research is not going to be fruitful for anyone trading in the short-term like day trading, here is why –

Fundamental analysis is more about checking the fundamentals of a particular company. But let me ask you something. Do you think that the balance sheet of any company is going to make any huge difference if your trade is only about a few minutes? A company might give you good results on a trade (day trading) even when its financial statements said otherwise. Similarly, a company might lead you to incur losses even when it had an amazing balance sheet. So, if you let fundamental research get to you, then you will only end up being distracted. What is important here is irrespective of whether you know about the financials of a company or not, never let such factors make you biased on your trade. When you are considering a few minutes in a day, anything can happen and fundamental research is definitely not going to determine that.

You must have already heard me telling this a thousand times, but I am going to say it again – if you want to be successful as a day trader, then you have to possess a solid trading plan, and you have to live by that plan. The price chart patterns are more important in formulating day trading strategies than fundamental research. With the help of the charts, you will be able to inform yourself exactly what is happening in the market right now and that is what you need in day trading. You don’t have to worry about what is going to happen to a stock five years from now because you have to be concerned about what is going to happen to it 5 minutes from now. So, if you work on honing the chart reading skills instead of spending time on reading financial statements, it would help you more in your day trading career.

So, in short, no matter what the fundamental data of a company states, your stock has the scope of rising or falling price, which has nothing to do with the fundamental research.

Assumptions In Technical Analysis

You will get a few traders who believe in performing both technical and fundamental analysis, but most of them are going to choose one over the other. And they are going to prefer technical analysis. There are two major beliefs on which technical analysis is based and they are –

.There is a cyclical nature in the price history.

.There are distinct trends in price, volatility, and volume.

We are going to discuss each of the above-mentioned points.

Market Cyclicality

Studies on market nature have shown that it indeed repeats itself after regular periods. I am not saying that the sequences are perfect at all times, but what I am saying is that the pattern of these sequences is more or less similar even over the course of years. And this is how to price behavior over the long-term or short-term is found out.

If you consider the long-term, then there are a lot of factors that are responsible for repeating the business cycles. One such factor is a credit boom, and it also leads to a rise in the debt levels, which sometimes even surpass the income levels even if it is only for a short period of time. The end result for such a phase is a reduction of cash in the hands of the masses and thus, everyone is under a condition of financial pain. Since they lack the cash in hand, they are not able to repay any of their debts as well. All of this, in turn, results in a very slow progressive growth of stocks during the course of an expansion.

The different technicians studying this phenomenon are of the belief that this patterned nature is repeated by the market participants over a period of time, and the participants are, in fact, inclined to do this. Now, if we are to consider the fact that such behavior of participants is repeatable, then we can also conclude that that one look at the past price will reveal what is going to happen next. Predicting all the future price patterns will become so much easier. In simpler terms, when traders get the chance of predicting what course the prices will take, they can easily point out the trades where the risk/reward ratio will be favorable to them.

Now, if we are to talk about fundamental factors like economic data and news, then you have to understand that all of these factors are immediately included in the prices of assets or they were already included from before. But when you take the help of technical analysis, it will help you with the identification of the trends in price levels, and you will also get to understand how the information in the market is being valued by the different participants of the market.

Trends In Price, Volatility, And Volume

Now, let us talk about the second assumption in the aspect of technical analysis – trends in price, volatility, and volume. Based on this assumption, it is safe to say that there is no random change in anything. Everything that happens has a logical pattern behind it. In fact, there are certain trends that are followed by these three aspects and those trends are not only explainable but predictable as well.

Characteristics And Analytical Approach

Now that you are aware of the basics of technical analysis let us move into the depths and study what it is really about. Well, this analysis will help you to find out the magnitude of volume and price and also the successive flow through a stock ticker. Back in the 1970s, when computers had first started to come into the picture, charts were created after compiling all the data and then these charts became the main point of reference for all the technicians.

The most common forms of analyzing the data of the stock market were in the form of bars and chart patterns, and then came the concepts of moving averages, regression analysis, and price correlations. If we are to talk about today's world, then you will see that the number of technical indicators has increased way more than before. If you want to transform the volume data or the price into an indicator of your choice, then all you need to have is sufficient knowledge of coding with respect to the software that you are using.

Having said that, I will tell you that you definitely cannot predict everything with the help of technical analysis, and you definitely cannot expect every prediction to be true. But nonetheless, it can still help you to identify potential mismatches, behavioral proclivities, and several trends.

Now, if we are to talk about the analytical approach, then there are several ways in which you can approach technical analysis. Using the general candlestick price chart for technical analysis is probably the simplest method of all. These charts will help you study any specific time period during which you can see the dynamics of buying and selling price and also track the price history.

In order to do a more specialized form of technical analysis, some traders believe in implementing other complex forms of indicators along with the candlestick charts. But along with this, there is something that you should remember and that is – when you use too many indicators, you might suffer from an information overload that will confuse you and prevent you from making the right decisions. With too many lines and indicators, your ability to read the chart effectively reduces.

Types Of Charts

In the previous section, I told you how technical analysis is done with the help of charts, but now we are going to see the different types of charts that are utilized in the process.

Candlesticks

The most common form of charting that is used in the case of technical analysis is candlestick charts. I have already spoken at length about these charts in Chapter 7, but I would just like to remind you of some of the basics here. The bullish candles in the chart are represented by the green candles. Sometimes these green candles are represented by white candles as well. The bearish candles, on the other hand, are represented by the color red and sometimes black. In the case of the bullish candles, the opening price is lesser than the current price, whereas, in the case of the bearish candles, the opening price is higher than the current price. The body of the candle is used to depict the range between the closing and opening price.

Open-High Low-Close

This is another type of chart which is similar to the candlestick charts. These charts are known by the name of bar charts. In the candlestick charts, we saw how the difference in the closing and opening price was depicted by the body of the candles but in these charts, that difference is represented by tick marks that have horizontal alignment. When the tick marks are depicting opening price, the marks are towards the left, and this depicts that the marks are from the past. Similarly, for the current price, the marks are towards the right.

Line

The next type of chart that we are going to discuss is line charts. In these, different points in the chart are connected with the help of a line. The connection is usually made through the closing price in each case.

Area

Another type of chart that is commonly used for technical analysis is that of an area chart. It is similar to the line chart that I explained above, but the only difference here is that the area enclosed beneath those lines is shaded in the case of an area chart. I know you must be wondering why. Well, shading the area makes it easier to study and visualize the movement in prices.

Avoiding Technical Analysis Pitfalls

There is a drawback in everything and technical analysis is no exception, but I am here to make you aware of those pitfalls so that you can be aware of them.

No Opportunity In Obvious Analysis

I will start with an example to make you understand this in a better way. Let us say a gap forms in one of the securities, which means that due to high demand or some type of positive news, there has been a huge jump in price from one trade to another. This is good news for the day traders, and in the most likely situation, the situation will continue its upward movement. So, what do you do? You make money by buying this security.

But something that you are overlooking here is that the gap is obvious and everyone can see it. Everyone knows what the gap means and they know that there will be an increase in price and so everyone jumps in to buy the security just like you. But that results in the security bidding up. Your opportunity to make a profit is gone in an instant. So, what do you think would be the better advice? Should you completely avoid the situation, or should you sell short?

This is where the problem lies because when you are looking at obvious patterns, so is everyone and if you really want to know what is going to happen in the market after such a case, you can tell that only after gaining a certain amount of experience in similar positions.

Analyzing The Data Too Much

Preparing for trading and actually being in the market has a whole lot of difference. When you are preparing for the trade, you cannot even fathom the amount of stress and tension you will have to deal within the market. And all that stress can easily make you take the wrong steps or make you overanalyze your data so much that you are left confused. You can get a comprehensive idea about market psychology if you perform technical analysis. But it is very easy for people to become lost in the process and over-analyze everything. There will be so many questions racing through your mind and you have to find an answer to all of it.

You simply have to find a way for yourself where you will not become puzzled with all that is in front of you and be clear-headed. Since you have developed a trading plan or a system of technical analysis for you to follow, you also have to keep your faith and your trust in that system. When you are confident about things you do in different situations that crop up, you will be making better trading decisions too.

There Might Be An Upward Bias

Like I already told you before, the price of securities already considers the different factors into it. The random pattern continues to be followed until and unless there is some new information. This is how any of the security has a chance to perform better than the other.

The random path that we are talking about has a certain name in the stock market, and it is called upward bias. In simpler terms, the companies are expected to perform well when the overall economy displays positive growth. So, in such a case, the movement is expected to be in the upward direction and not the downward direction. But what is random in such cases is the magnitude.

Now, if we are talking about random movements, then there will always be people who will lose and some people will win despite the securities that they are choosing. Now let us say that there is an upward bias, and the movements are random, in that case, the number of people winning will be more than those who are losing. And those who are winning will have a certain percentage of people who will be touting their systems even though what actually happened what totally because of random movement.

Chapter 9: All About Market Indicators

No matter what your day trading approach is, in this chapter, we are going to discuss a bunch of market indicators that are quite helpful in the case of day trading. You can either use them in combinations you deem fit or you can even use them singularly. Once you finish this chapter, I am sure you will find the indicators that you think would be best for you.

Regardless of what you are trading, be it stocks, forex, or futures, if you are choosing technical indicators, then I would advise you to stick with the simpler ones because they are not only effective but also easier to handle. After a point of time, you will figure out whether you want to stick to any one indicator or whether you want to use a couple of indicators. But in order to prevent repetition and confusion, limit the use of indicators to only the ones you truly need.

But before we move on to the different market indicators, I want to introduce you to the three main types of indicators. This categorization has been done based on the information you get from each of these technical indicators –

- **Trend-Following Indicators –** With the help of these indicators, you will get the major advantage of finding out the strength of the current trending market. It is true that in most cases, a simple glance at the price chart would reveal the traders about the type of trend they are facing. But when it comes to measuring the strength of that trend – it is not so easy as identifying a trend. Moreover, with the help of the indicators, you will be successful in spotting the trends way before others in a much earlier stage. Some of the examples of this category of indicators are the ADX indicator, MACD, and moving averages.
- **Momentum Indicators –** Whenever there is a movement in price, and you want to gauge the strength of that price movement, it is the momentum indicators that you have to use in this scenario. The strength is measured after performing a comparison with past data.

The value of the indicators usually keeps fluctuating between zero and 100 and with the help of this value, you will be able to tell whether the market is oversold or overbought. But when the trends are strong, momentum indicators can actually deliver you false reports, but when the market is raging, that is when you can implement the positive side of the momentum indicators. Some common examples include CCI, Stochastics, and RSI

.**Volatility Indicators** – Every instrument has its own level of volatility, and these indicators will give you a measure of that volatility. In order to find trading opportunities that can actually increase your potential to bring home profits, you have to chase volatility as a trader and that is why volatility indicators can serve to be a very powerful tool for you. Some examples are ATR indicator, Bollinger Bands, and so on.

Now, we are going to explain some of these indicators in detail for a better and clear understanding of the same.

Moving Averages

One of the most popular day trading indicators is the moving averages. They serve two purposes. They are treated both as a counter-trend indicator as well as a trend-following indicator. The closing prices of the previous 'n' trading periods are averaged and represented by the moving averages. Whenever there is a new closing price, the last closing price in the calculation series of the moving average will be dropped. In place of the dropped number, the new closing price will be added and the average will be calculated. You will be able to see these moving averages on the price chart.

When there are multiple moving averages in the price chart, they are grouped together, and there is one group termed as SMA or simpler moving averages, and there is another group which is termed as EMA or exponential moving averages. The simplest form, as the term suggests, are SMAs because they are calculated by simple arithmetic mean calculation. That is why, in the case of SMA, every closing price that is included in the calculation holds equal weightage in the bigger picture.

On the contrary, the EMAs are quicker than the SMAs since they use the exponential method of calculation. But in case you are confused as to which type of moving average you should begin with, I will definitely advise you to begin with the EMAs because they are simpler and after using them for a while you will get the hang of it and see whether they are aligning with your trading strategy or not. Some other ways in which moving averages can be used are in the form of resistance lines and dynamic support.

MACD

This is an acronym for Moving Average Convergence Divergence and is pronounced as 'mad-dee.' It utilizes both oscillators and indicators for its calculation. There is a histogram and then there are two lines. The first line is used for depicting the difference between the two moving averages (one is slower, and the other one is faster). And the other line is basically a moving average of the first line.

Then there is the histogram with the help of which a graphical representation of these two lines is made and you can find their difference from this histogram. There will be a rise in the histogram when the two MACD lines start to diverge from one another. Whenever you notice or identify a trend in the price chart, it is the MACD indicator that is used for confirming that trend. You will know that an uptrend has started to form if the previous bar is beneath the latest bar. On the other hand, it will be the beginning of a downtrend when the previous bar is on top of the latest bar.

RSI

The next one that we are going to discuss is the Relative Strength Index or RSI, which was developed back in 1978 by J. Welles Wilder. And it is considered to be one of the most important and popular indicators even in today's world. The reading of RSI could be anything between 0 and 100 and with the help of these values, you will be able to understand whether the conditions in the market are oversold or overbought. You can label a market to be overbought when the RSI values are above 70, and when the values are below 30, it is oversold.

Now, coming to the strategy that RSI promotes – when there is a decrease in the value of RSI so much that it falls beyond 30 and it returns to above 30, you should buy and similarly, it is a signal to sell when the value goes beyond 70 and comes back down.

But you have to remember that you can expect good results from the implementation of this strategy only when the market is not in a trending mode. When the market is trending, the values of RSI that you are getting could be oversold or overbought for a long stretch of time before you can do anything. That is why it is so important for you not to stick to any one indicator and try different indicators.

Bollinger Bands

I am sure you have come across the term Bollinger Bands somewhere or the other with respect to day trading because they are one of the most popular indicators. As already mentioned before, if you want to measure the volatility of the market, Bollinger Bands can be good for the task and the basis of this indicator lies with simple moving averages. There are three lines in these indicators. SMA is represented by the middle line, whereas both the lower and upper lines are marked two standard deviations apart. The entire structure forms a band-like appearance and hence the name.

When there is an increase of volatility in the market, the bands become wider, and similarly, when there is a decrease in volatility, the band's contract. There are so many interesting strategies that you can create by using this technical indicator.

If you are performing your technical analysis with Bollinger Bands for intraday trading, then let me tell you something – they have been reported to provide an 80% success rate. When you notice that the price has moved in close proximity to the upper band, that is when the strategy has to be implemented. You have to understand that the security has become expensive and that sooner or later, it is going to make an attempt to come back to its average value. This will ensure that you can keep a target of the middle band price and sell the security at the upper band price.

In the same way, you have to predict that the security has become cheap when you see the price moving closer to the lower band. In such a case, the security will make an attempt to move up to reach its average level, and that is when you have to buy the security at the price of the lower band and your target should be the price of the middle band.

CCI

The next one that we are going to discuss is the Commodity Channel Index or CCI. They have also developed ways to become dating to 1980, and the person responsible for developing them was Donald Lambert. In this indicator, a comparison is made between the current price of the security to that of the average price considered over a period of time. The value of this indicator keeps fluctuating usually below and above the line of zero.

It has been noticed that the values of CCI, or at least 75% of them, are between +100 and -100. When the values are beyond this range, it means that the price has undergone a very strong change as compared to the average. There are different markets in which you can implement this indicator, like the forex market or the stock market.

In order to get more trading signals, you will often find the CCI indicator is used in the short-term charts. In fact, CCI returns more signals in short-term charts as compared to the long-term charts. You should predict it as a buying opportunity when you notice that the value of CCI has gone beyond +100, and if the value has dropped below -100, it means that you have to sell.

Fibonacci

The Fibonacci is definitely one of the most effective tools, although I will agree with you that it is not one of the regular technical indicators that are most often used. Have you heard about the Fibonacci series of numbers because that is what this technical indicator is based upon? This particular series goes something like this – 1, 1, 2, 3, 5, 8, 13, and so on. Did you understand how it is going? Every number in the series is the sum of the two numbers prior to it. Let us say we are to divide any of the two successive numbers; then, you are going to get the same ratio every time, that is, 0.618. This ration is termed as the Golden ratio. The Fibonacci tool operates on utilizing this ratio and then finds out what the retracement levels in any of the trending markets are.

You don't actually have to be too concerned about the Fibonacci levels, but you should be focusing more on the zones. This zone is the area where the probability of retracing the price is highest and that the price will keep moving in the direction of the trend.

Stochastics

This is basically an oscillator that forms a comparison between a range of prices to that of the actual price of the security and this is done over a certain time frame. The RSI indicator and the Stochastics indicator are quite similar in nature. Since traders want to determine whether they should sell their security to buy another one, they use the Stochastics indicator to find out conditions of being oversold and overbought. But, in the case of the RSI indicator, you had seen that there were levels above 70 and below 30 that were used as an indicator but here, the levels are 80 and 20.

The disadvantages of RSI and Stochastics are similar as well. When the markets are ranging, the indicators will work perfectly, but when the markets are trending, you will get fake signals that are not at all reliable. In such a case, you should look forward to other types of indicators for analysis.

ADX

The next one on the list is ADX or Average Directional Movement Index, which is another trend-following indicator. With this, you can find not only the direction of the market but also the strength of the trend. There are a total of three lines in this indicator. The +DI line, -DI line, and the ADX line are those three lines. Among these, the direction of the trend is determined by the +DI line and –DI line. You can label the market to be in the uptrend if the +DI line is above the –DI line. Similarly, you will predict that the market is entering a downtrend if the –DI line is above the +DI line.

Now, the function of the ADX line is solely for measuring the strength of the trend. When the ADX reading goes beyond 25, you will understand that the trend is weak. When the reading is the range of 25-50, the trend is strong. And, if the reading is beyond 50, then the trend is really very strong.

ATR

Lastly, we are going to discuss the ATR or Average True Range indicator. It is another indicator of measuring market volatility. The greatest value among the following is considered for this indicator –

.The current high’s absolute value – Previous close

.The current high – The current low

.The current low’s absolute value – Previous close

A specified time is chosen, and the average of these values is taken for plotting on the chart just like a moving average. Since ATR will give you a measure of volatility, that is why the stop-loss levels can be effectively calculated with the help of this indicator.

Chapter 10: Day Trading Strategies

You have already learned the basics of the day trading style, and in this chapter, I am going to teach you some of the strategies that you can implement to make a sustainable income and also minimize losses. In short, when you are using a particular strategy, you promise yourself that you will be sticking to your decided plan no matter what. Different signals and indicators are used to frame these strategies. But the results that you will get after applying the trading strategy will also depend on the amount of discipline that you are practicing during the process of trading.

Trade Management And Position Sizing

Position size refers to the size of your trade and it definitely plays a great role in the life of a day trader. If your trade size is wrong, no matter how good or bad your strategy is, it won't matter. Nothing can compensate for the wrong trade size. One of the most important lessons on position sizing is that you should have a fixed account risk limit for every trade. If you ask the professional traders, they are most likely going to tell you that they do not risk more than 1-2% of their account value in each trade. Let us consider that your day-trading account has $45,000; then, for every trade, you should not be risking more than $450.

After this, you have to think about the trade that you have to perform. There is a term called 'cents at risk,' which is basically your trade risk. This is why you should maintain a stop-loss point, which is basically a point where you would exit a trade and the presence of a stop-loss prevents you from losing an indefinite amount of money.

Now that you have understood the maximum risk you should take with any trade and also the concept of trade risk, and it is time you combine these figures and determine your position size. It can be found out by following a mathematical formula which goes on something like this –

Idea Position Size = Money at Risk / Cents at Risk

Psyching Out The Markets

You have to understand that for every buyer in the market, there is a seller too. As you know that the price of the securities keeps changing, there will come a point in the price at which the sellers are ready to sell it and the buyers are ready to buy it. This is also how supply and demand functions. The demand is met by the changing price, but there are certainly other factors working here as well and they are – psychology and emotions.

Now, if you are wondering what might create differences in the outlook, then there are certain scenarios that you should think about –

- .Every trader might not be having the same time horizon. Let us say that there is some bad news and the long-term investors choose to sell their security because of it. But in the case of short-term traders, this might not matter as long as they are making a profit in the short-term.
- .The risk profile of traders might not match. Let us say that a big company is trying to accrue a smaller company, but if the investor is too conservative, he/she might not be interested in investing in the smaller company anymore. On the other hand, another trader who has bigger goals and has a greater risk appetite might be willing to invest.
- .The other trader might not be in their rational mind and they might be taking the wrong decisions, which, in turn, might create just the right opportunity for you.

So, it is advisable that you don't try to psych out the person in front of you because every trader is different. There is no one size fits all concept here. What you should worry about is yourself and not others.

Identifying Anomalies And Traps

There can be several traps that affect your performance in the stock market as a day trader, and so you have to be aware of them from before. There is basically no logical reason behind the existence of these traps, and yet they still exist and continue to affect the market. If you are not aware of what traps are, well, they are certain situations when you had expected the market to perform in a certain way and it didn't. Instead, it took a different course. In such a case, you have two options – you can either do what the indicator is telling you, or you can follow the market. For long-term investors, they have a lot of time in their hands, but in the case of a day trader, your time is limited, and you have to fix the situation within that limited amount of time.

In this respect, I would give you an important piece of advice – you should steer clear of stock performance chart traps. If you analyze the price charts on a daily basis, you will notice that at times, a situation arises where you are not sure about the breakout being true or false, and you are confused about whether it is only a smaller subtrend or whether the trend is truly changing. There are times when traders think that they have analyzed charts carefully, and they are ahead of the market when in reality, you are trading against it.

Measuring Money Flows

Before discussing any more, let me begin by explaining what money flows mean. It indicates the amount of money that is going out or coming into the market. You can basically call them a completely different set of technical indicators with the help of which you can judge the current market sentiment, and you can also find out in which direction the market is headed. In order to measure the market, both volume and price indicators are used. Just like the RSI, there is a term MFI which stands for the Money Flow Index, and the calculation of this index is usually done over a period of two weeks. There is a complex formula that is used, and with the help of that, both negative and positive money flows are found out. The score you get in the end is somewhere between 0 and 100, and the score is the indicator of the selling or buying pressure prevalent in the market.

Now, you must be wondering how the MFI is used. Well, it is basically used as a contrarian indicator. When the movement is in the opposite direction to that of the price, it means that the current price trend is probably going to face a reversal.

Red-To-Green Trading

One of the best setup strategies of day trading is the red-to-green trading strategy. One of the first steps of day trading is to pick stocks that have shown a great performance in the previous session. And that is where red-to-green trading is going to be of great help. When the closing price of the previous day is still above the trading price of today, then that stock is considered to be red. On the contrary, the stock will be considered to be green when the closing price of the previous day is below the trading price of today.

There will be a change in the share price from below the closing price or the previous day to above the closing price of the previous day when there is a movement in stock from red to green. This is also a perfect example of a shift in momentum. If you are going to plan a trade, then you can use this information and consider the previous closing price for setting your risk levels. When this shift in momentum takes place, it is often noticed that the stock becomes more volatile than before and this is what is needed for the intraday trading setups.

Opening Range Breakouts

This is a fairly simple strategy for day trading and is also known as ORB. Once the market opens, the highs and lows of any particular range are termed as the opening range breakouts. It usually falls within the first thirty or sixty minutes of trading and if you want to make real money, this is definitely one of the most important chart patterns. You not only have to identify the highs and lows of the day but also the pre-market highs and lows. After the market opens, these are the levels that pull the price action like a magnet. Volatility and huge trading volumes accompany the opening hour of the market. If you are vigilant, then you will be able to notice multiple trading opportunities during this time of the day. The entry points are selected by the traders with the help of the opening range, and then they can move on to predict what the price action of the day will be.

The size of the opening range is one of the first things that you have to figure out after the market opens. From the trading session of the previous session, look at the last candle, and another candle that you have to set your eyes upon is the first candle of the trading day right after the opening of the market. If you want to find the range, then you have to consider the low or high of the opening candle of today and the low or high of the last candle from yesterday. The range will be determined by the difference between the prices.

The most important part of this strategy is the breakout. This will help you figure out what the price direction is going to be once the market opens. There is a chance that the price will continue moving in the same direction when the price breaks out. In simpler terms, the breakout will basically serve as your entry point into the market.

Scalping

Now, we are going to discuss another important strategy in the premise of day trading and that is – scalping. This is also probably the shortest trading strategy that you will come across. The term itself is derived from the fact that the traders who adopt this strategy actually enter and exit from the market very quickly so that they can utilize a large number of trades for skimming small profits. And they keep doing this for the entire day.

In fact, people who follow this strategy are known as scalpers, and they are of the belief that if viewed from the perspective of market volatility, scalping can be effective and way less risky. You do not depend on the large moves but on the small ones repeatedly. Any major event or news can help you during the implementation of this strategy because what you are looking for are small fluctuations in price. Traders who utilize this strategy might not run more than thirty minutes and the chart utilized is a five-minute chart. In fact, in certain cases, scalpers even utilize five-second charts, and in such cases, the trades perform anywhere between 10 and 100 trades every day. But you also have to remember that even though you are taking lesser risks with this strategy, you are missing out on the opportunity to make larger profits.

Also, in order to be successful in this process, you have to be quite disciplined and be systematic. You should also have it in you to stick to your trading strategy, no matter what happens. You also need to be able to make quick decisions without raising any questions or self-doubt or any kind of hesitation. You also need to practice a lot of flexibility because, at times, the trades might not be proceeding the way you thought they would.

Reversal

You have probably come across the term reversal in this book a lot of times and now, I am going to explain to you how to follow the strategy of reversal when you are day trading. Let us say a market is in the uptrend, but a reversal would mean that it starts to show downtrend and vice-versa. There are several technical indicators that you can implement in a reversal strategy, the most common ones being trendlines and moving averages.

But you have to remember that in the case of day trading, reversals happen pretty quickly but they occur in different time frames. As a day trader, you have to look for reversals that occur on a short-term like the ones that happen on a five-minute chart. There are a series of higher lows and swing highs in the case of an uptrend, but when that undergoes a reversal and follows downtrend, it becomes a series of lower lows and lower highs. Similarly, there are a series of lower highs and lower lows in the case of a downtrend, which will convert into a series of higher lows and higher highs when it reversed into an uptrend.

You can depend on price action for determining the reversals. You can spot both reversals and trends with the help of moving averages. And you can use the trendlines to find out the reversals. But it is not so easy to spot the reversals because sometimes what you think to be the reversal might just be a false signal.

But whenever we are speaking of the financial market, reversals will always be present there no matter what. At some point or the other, prices will have to undergo a reversal. In fact, if you are not aware of these reversals, then you might stand to lose more money than you had imagined. Let us say you are anticipating a stock to be a valuable one because its position changed from $4 to $5, and the trend went higher, but then it started dropping from $4 to $3 and then to $2. The reversal signs were definitely there in the chart way before the stock came down to $2, and if you had noticed the signs earlier, you would have had the chance to lock your profit down instead of facing huge losses.

Chapter 11: Step-By-Step Guide For A Successful Trade

Now that you have reached the last chapter of this book, I am going to give you a step by step guide on how you can make your first successful trade. Everyone wonders what the first step in trading stocks would be, well, now you are in luck because I am going to chart out your path and all you have to do is follow the instructions.

Step 1 – Build A Watchlist

There are actually different ways in which you can create a watchlist. It will basically provide you with a list of stocks on which you can focus on a particular trading day. The main purpose of the watchlist is to keep you focused. There is an endless list of stocks in the market and you cannot focus on all of them at the same time. That is why a watchlist is so essential to narrow down the field for you. In fact, when you have a watchlist, preparing for the trade also becomes way easier. You will have a higher chance of capturing the right fluctuations at the right time because your focus is on a selective few stocks rather than the whole market. In fact, if you have selected the right stocks, half the battle is already won. But the question is – how are you going to build this watchlist? Well, read on, and you are going to find it out.

Begin Your Watchlist Post-Market

After the market has closed down, the companies release earnings reports and news, which can affect the performance of the stocks. So, if you want to find out the stocks that are going to make headlines tomorrow, you should implement the different post-market gap scans. It happens that a stock trades after the market has closed down, and then it is sold pre-market. So, the actual research for your stocks should be done in the post-market condition, but you should not finalize anything until the next day because if the stock is still viable on the next morning, you can then use technical analysis to finalize your stock list.

Don't Include Too Many Stocks

One of the major mistakes that people make with the watchlist is that they cram it up with too many stocks that it becomes difficult to keep track of. So, the number of stocks for your watchlist should be ideally between 5 and 10. In fact, once you have garnered more knowledge as a day trader and you become a pro at it, you can start developing different watchlists for different segments.

Keep Your Trade Triggers Planned Out

You have to plan the potential trade triggers for every stock on your watchlist before you enter the stock market. If you don't do this, then there is no use of placing these stocks in your watchlist in the first place. Everything starting from support and resistance levels, pattern set-up, and indicator and price triggers should be included in your analysis. This extensive work has to be finished before the market opens so that once it opens, you are completely ready. You should keep a note of all the information either in a notebook or on a chart. For analyzing the technical, don't stick to any one-time frame. Implement multiple time frames so that you can acquire a comprehensive perspective of the market. You also have to determine your position size and your stop-loss.

The Stocks Should Fit Your Style

Everyone has their own style of trading and you have to be honest with yourself about it if you want your watchlist to be of any use to you. You have to consider your temperament and the type of strategies you prefer to use as well. Let us say that you are a scalper, then the stocks you choose should have momentum and good volatility. If there has been a catalyst event in one of the stocks, then that is probably going to be better for you. Charts with shorter time frames should be looked into.

Don't Forget Liquidity And Volume

Liquidity is ensured by volume and price is overridden by volume. If you want your stock to be tradable, then you have to ensure that both these qualities are present in it. If you think that the stock does not have any volume, don't spend too much time looking closely and move on to the next stock.

Once your watchlist is ready, you can move on to the next step.

Step 2 – Create A Trading Plan

No matter what your trading style is, having a trading plan is of utmost importance, and I have already stressed this throughout this book. But now, I am going to show you how you can create the perfect trading plan.

Assess How Many Risk You Can Tolerate

The risk tolerance level is not the same for everyone. There are some traders who are not willing to take too much risk and they are more towards making small profits. But you also have to keep in mind that the potential payoff from a trade will be more when you are risking more, and that is where the risk-tolerant traders come in. They implement more aggressive trading strategies, but they also stand to lose a far greater amount of money than the risk-averse traders.

Maintain A Trading Journal

I have already told you before that a trading journal can completely change the way of trading for you. Whenever you set foot in the trading sphere, you should note down everything in your journal because this can actually be a great learning scope for you. Moreover, in case you make any mistake, and you write it down, you will not be making the same mistake twice. You should also perform journal retrospectives from time to time. This method of evaluating your trades will give you a lot of insight into the market. You can go through your journal every weekend and evaluate your performance. This evaluation will also point out any changes that you might need to make in your trading strategy in order to increase your profits.

Figure Out What Strategy To Use

We have already spoken at length about the different types of strategies that are there. Here, I would just like to remind you that before you settle for any of the strategies, make sure you have judged both the weaknesses and strengths of the strategies and then settled for anyone of them. Remember that none of the trading strategies are totally perfect. There will always be some which work better for one market, and there will be some which don't work well.

Assess The Market Environment

The environment of a market does not always remain the same, and it keeps changing. Sometimes it might be in a downtrend and at other times, it might be in an uptrend. Similarly, the sentiment of the market can be risk-off or risk-on. Every type of market has its own set of characteristics, and before you finalize anything else on your trading plan, assessing your market environment should be on the top of your list.

Be Strict With Risk Management

Don't make the mistakes most traders have – avoiding risk management. We have already discussed it at the beginning of the book as to how important it is and how you can implement it. Remember that if you have not taken risk management in your trading plan, you are not trading but gambling with your money. No matter how good your trading setup is, if risks have not been accounted for, you will end up losing a lot of money.

Clearly Define Entry And Exit Points For Your Trades

If you want your trading plan to be comprehensive and perfect, then having defined entry and exit points is a must. These will be the possible levels at which you plan to enter your trade and rules which will define your possible exit point. When you have this prepared, you will be able to take home maximum profits and also minimize your losses. Depending on the trading setup you have, your trading strategy will direct you on whether you should go long or short. And by implementing the right risk management rules along with your strategy, you will be able to determine your points of entry and exit from a trade.

Figure Out Your Trading Style

The next most important thing that you should do for making your trading plan complete is that you should find out which trading style you align the best with. Your trading style will speak a lot about other things like your preferred time frames and risk management strategies.

Don't Overlook The Fundamentals

I know I have told you before those technical indicators are more important for day trading, but that does not mean that you will completely overlook the fundamentals because they are important too. Trends are created or reversed based on these fundamentals. In fact, the intrinsic value is determined based on these fundamentals.

Have A Fixed Reward/Risk Ratio

When you are fixing exit points for your trade, it also means that they should possess a precise ration of reward/risk. If your trade is good, then the ratio should be more than one. Let us say that you have fixed a profit target that is $40 away from the current price, and your stop loss level is $10 away, then the ratio of reward/risk will be 4:1. In simpler terms, in order to make a profit of $4, you are risking an amount of $1. If a particular trade has a reward/risk ratio that is less than what you have specified in your trading plan, don’t make any exceptions. You will be better off skipping that trade.

Specify The Maximum Risk You Are Going To Take Per Trade

You should have a pre-set amount for the risk you are willing to undertake in each trade, and if the risk associated with any trade surpasses that level, you should not take that trade at all. You should have a lower value of risk-per trade with an increase in your trading account value.

Don’t Overlook Your Maximum Drawdown

First, let me explain what a drawdown is. The largest distance between a trough and a peak in the balance of your trading account is referred to as the drawdown.

Let us consider for this example that you have a balance of $10,000 in your trading account and you incur a loss of $2,000. Afterward, you recover some of the losses, but the drawdown of your account will be 20%. Your maximum drawdown would increase with the amount of risk you take. Your account will have a relatively smaller drawdown when you keep your risks in check.

Implement Pending Orders Where It Is Needed

When you want to enter a trade, and you don’t want to remain seated in front of the screen all day, you can take the help of pending orders to do so. You already know about the market orders which have a current spot price to open the trade. But in the case of pending orders, it will be opened when the price reached a certain level. These pending orders convert into regular market orders when the price crosses a certain level which is pre-specified.

If you want to identify the price breakouts below or above certain important technical levels, then pending orders are going to be your best friend.

In day trading, you have to make a lot of hasty decisions since you have to buy and sell orders within the same day and sometimes within minutes. This is why the importance of a trading plan is so much more in this case. If you do not have a trading plan, there is a high chance that you will go off the path when there is some difficulty or if it takes you too much time to figure things out, you might lose a great opportunity of making profits. The presence of a trading plan will prevent that from happening. Now that you have gone through all the steps that you need to follow in order to build a trading plan, get going and build it right away and you will be all set up to execute your first trade.

Step 3 – Execute Your Trade

When everything has been set up, and you have done your legwork, trade execution will seem pretty easy because all that you are going to do in this step is that you will follow the instructions that you have already set. If you are just starting out with day trading, I would advise you to keep your plan simple with a minimal number of trading setups because the more complex you make, the more difficulty you will have to face in figuring it out. Moreover, when the actual process is easier, you can put more energy into dealing with the psychological process behind trading. And the psychological part is what will separate the losers and winners.

Another thing that you should keep in mind while executing your trades is that the financial markets are very much interrelated in today's world. So, when there is a change in one of the markets, there will be a reaction either in the positive or negative direction in the other markets. In fact, if you spend some time trading, you will notice that there is not a single market that remains totally independent.

Nothing can stop your trades from becoming profitable if you promise to execute all the steps, exactly the way I advised you to. You can read a dozen books, and I know that many of you are reading this book, but not everyone will succeed because not everyone possesses the discipline and patience to carry on with the plan. If you can master those qualities, you are going to be successful in day trading.

Conclusion

Thank you for making it through to the end of Day Trading for Beginners, let's hope it was informative and able to provide you with all of the tools you need to achieve your goals whatever they may be.

I hope everything that has been mentioned in this book helps you become better at day trading. The next step is that you have to follow each step that I have talked about and do it with patience and full attention. Don't let yourself become affected by huge profits that your friend just made because that feeling of self-doubt is what is going to ruin your trading plan. I have already spoken at length on how you can build the perfect trading plan. Follow the steps and then engage in active risk management so that you don't end up losing all your capital.

Day trading is a very good career option and very similar to owning a business because you get to work independently. Moreover, there are plenty of tools on the brokerage platforms that will assist you with formulating strategies and you can work from anywhere you like. The preparatory work involved in day trading is much more than the process of trading itself, and if you can get past all of that, you are in for some huge profits. But you have to make decisions fast and not let emotions come in the way of making decisions. Just like every other trader, even day traders go through bad phases, but don't let one failure detest the whole process. The first year will be the most difficult phase, and if you are able to stick it out, I am telling you, it will be worthy of your time.

Finally, if you found this book useful in any way, a review on Amazon is always appreciated!

Forex for Beginners

[Tony Correra]

Introduction

Congratulations on purchasing this book, and thank you for doing so.

Forex is an amazing segment. To an outsider, forex can be very confusing and even intimidating to a great extent. Everything in the forex looks cryptic and fast. It can leave onlookers bewildered. On the other hand, many forex traders find forex to be intoxicating. They find themselves incapable of trading in other segments as they don't find the same speed, thrill, risk-reward ratio, and leverage elsewhere.

Brokers would try to present forex as the segment that can open the world of luxury for you. There are multitudes of promotion campaigns on the internet featuring forex that present as if you can become rich overnight trading in forex. They would show you dreams that this is the segment that can give you the chance to earn millions working from the comfort of your home as working as your boss.

The truth lies somewhere in-between. This book will help you in understanding and mastering the concept of forex and how you can navigate the treacherous road to success.

Beginners should have no doubt in their minds that forex is a great segment for trading. There are some very specific reasons for that:

- It is huge. The average daily turnover of $192 billion in the equity segment is like loose change in forex. The average daily turnover in the forex is upwards of $5.4 trillion.
- There are no brokerages and hidden charges in this segment. There are no strict rules like the 'pattern day trader' rule in the equity segment. Every bid you place will have a clear spread. Your trades simply need to cover the spread, and there is nothing else that you need to worry about. Not only this, in major currencies, this spread can be very thin.
- The market is open all the time. Forex is an Over the Counter market, and it is not run by any central exchange. Hence, you can trade whenever you want. The currencies are traded globally 24 X 7 as the world is divided into different time-zones. This gives you the

advantage to pick a suitable time-zone in which you would want to trade.

.The brokers in forex offer much higher leverage for trading. This means that even if you want to begin with a smaller investment, you will have enough capacity to get your feet wet.

.It is a transparent market with no central authority. Hence, the chances of insider trading, deceptiveness, and other such fraudulent practices are non-existent here.

However, this doesn't mean that anyone can just walk-in and have the market by sway.

Forex is much more complicated than the Cash and F&O segment in many ways. There are too many factors that affect pricing and volume. There are too many factors that you may need to keep in mind. From government policies, employment numbers, and interest rates to the trade policies. Currency valuation can take a hit from any side, and a trader needs to keep the eyes open.

From trading in the right currencies to trading at the right time, several things would determine your success and trading rate.

This book will help you in understanding all these and much more.

This book will help you in understanding major currency pairs, currency quotes, order types, and other such vital things that would play a very important role in overall trading.

It would explain in detail the forces that drive the forex market and how this understanding can help you in making your trading decisions.

This book will walk you through various analytical approaches and explain the roles they play in decision making. It will also explain various custom indicators and how you can use them.

From risk management to an ideal trading plan, this book will walk you through the whole process of forex trading in a step by step and easy to understand manner.

The forte of this book is that it is written in a very simple manner so that you can understand the complexities of the trade easily.

In the end, this book will also help you in understanding the MT4 trading platform. This is the most popular trading platform used for forex trading globally. A good understanding of this platform would help you in mastering the art of forex trading easily.

It will also provide you various resources required to make your journey into the forex trading world easy and successful.

This book has been written in a very simple and easy to understand way so that everyone can take advantage of this information.

I hope that you will be able to get the full advantage of this book.

thanks again for choosing this book! Every effort has been made to make it as rich in useful information as possible; enjoy it!

Chapter 1: The Enigma Called Forex Trading

Forex trading has emerged as a very lucrative segment in financial trading. It is usually a segment most people have heard about but understand very little. Earlier only governments, central banks, major exporters, and hedge fund managers dealt in forex, and hence it also has that '*elite circle*' tone to it.

Other segments like equities and derivatives function through similar exchanges and have identical trading procedures and terminologies and hence they are commonly known. Forex is a completely different segment that operates through different mediums and also has its unique terms, and that also makes it sound a bit complex and intimidating.

However, it isn't true in its entirety. The forex market also works similarly to other segments, like the share and commodities markets. Everyone can participate in this market electronically with the help of a broker. It also offers similar or even better growth opportunities like other markets.

Still, this is a market that remains new, confusing, and intimidating to most traders. They find it difficult to understand as it doesn't function in the usual and regulated manner.

You'd find Some people who may brag about making tons of money in forex, and many others may also tell you that you could lose everything here. These contradictory remarks can clutter your understanding and perception. These statements are not all that can hamper your understanding and preparation of the forex market but there are many other traps too.

The Advertising Maze Can Be Treacherous to Navigate

Any person who spends some time on the internet, which includes almost everyone these days, would have come across advertisements that boast of instant financial success.

Numerous sponsors are pushing loads of cash to bring these ads in front of you. Such ads may appear during mobile games, before or after watching a video on youtube, or after installing an app. You may also come across a news item like pieces in the form of articles veiled as information, but they are simply advertisements intended to lure you into the world of forex trading.

They'd rightly tell you that forex trading has unlimited potential to earn a lot of money very quickly. These ads will tell you that such and such person was able to leave a well paying but hectic and stressful job after learning forex trading and now earns thousands of dollars daily trading from the comfort of the home. You may also be told that it is possible to earn a lot of money while you only trade for a very short period in a day. You can even trade while you are learning something new or following your passion in your life and have financial security in your life.

Advertisements pushing binary trading in currency are highly misleading. The people who pump their fists in these commercials don't have anything to lose, and they are not even trading on real money. But, if you get convinced by these ads, you will and the consequences can be disastrous.

Forex trading is not bad. It is as good or bad as any other trading market place like the Cash and F&O segment. There is no doubt that there is always a chance that you strike gold. Beginner's luck is a thing. However, no matter how big that strike is and how long your winning streak is, it is not going to last forever.

Even if you are told that there have been people who have been able to make billions in forex overnight, they won't be lying. It is possible, and it has happened in the past and there is no reason it cannot happen with you. But even you know that for such a thing to happen, you would need a lot of experience, capital, and planning along with the best luck.

We all have an innate curiosity to know more about the things we know very little. The mystery keeps us on our toes. When this mystery also involves an opportunity to earn money the curiosity doubles. To top it all, if you come to know that you can not only earn money but lots of it, the curiosity has no bounds.

Welcome to the World of Forex Trading!

But, before you get charmed by this line thrown at you with breathtaking numbers. You **MUST** pay heed to the warning.

Warning

Things might not be as rosy as you may hear from most brokers, and you **MUST NOT** fall for this.

The things promised to you in forex by brokers are just numbers on paper, they don't mean anything until they reflect in your bank statement. The likeliness of that happening overnight is slimmer than winning a jackpot. Undoubtedly, rewards are high, but the risks in Forex are even higher and hence it is not a segment for the underprepared.

To an outsider, Forex is enticing. It has a mysterious appeal.

It can also give you a great opportunity to make money.

But, and this is is **BIG BUT**, it is not devoid of **RISKS**.

Forex is complex and unchartered territory. Most brokers would want you to join forex and offer great leverage but that's a part of their job. More leverage means more trading and hence most profit for the broker irrespective of your gains and losses. However, more trading for you means a greater risk of loss.

You must understand that forex is trading, it isn't an investment, and hence the risk of loss is much higher than other segments. To succeed in forex, you need to be a person who can handle anxiety and pressure well. In the equity and commodity segment, the moments of anxiety are limited. On the other hand, pressure and anxiety are common elements in a forex trading platform. Trades get executed at such a rapid pace and things happen so quickly that people start losing their balance. People with itchy trigger happy fingers should take this as a warning as you can be staring at big losses in the forex segment if you are not able to understand the market clearly and judge the market trend precisely.

This is a reason this market would require you to be much more prepared than other segments. This book will help you in understanding the Forex Market up close for a better and safer entry.

It will open up the wonderful world of Forex trading for you with all its complexities and nuances. It will give you an insight into the functioning of this market and also suggest some winning strategies that will help you in staying afloat.

A larger number of people get lured into forex on the pretext of making big bucks in a short period. Most beginners believe that forex trading is similar to gambling or betting where they are placing money on a spot. This is an incorrect understanding of the forex market. It is also a proper market governed by the same market principles. Similar indicators and analytical tools that are used in the Equities, Derivatives, and Commodities segments can also be used in Forex trading, and they help a lot.

This book will help you in understanding all these concepts and much more. But before we begin understanding what forex trading is, it is also important that you understand what it isn’t.

The next chapter would help in broadening your understanding of forex trading and explain the things that make it different. It will also try to clear the facts that make this segment look so intimidating.

Chapter 2: The Intimidating Stuff First

The Forex Market Is HUGE

The foreign exchange market is the world's biggest market that is not bound by exchanges, borders, currencies, and timezones. It is a market that's practically open 24 X 7 for 365 days a year.

The average value of stocks traded daily on the stock exchanges is $192 billion. But, did you know that the daily turnover in the Forex market is more than $5.4 trillion even by conservative estimates?

The scope of trade in the forex market can make any market look like a dwarf. It is a big world out there, and just like our planet earth, it is also running or spinning at a maddening pace. To succeed in the Forex market, you will have to come up to speed as the stakes in the forex market are very high. This is a market that can promise you phenomenal returns on even paltry investments but you also stand at a risk of losing more than just your investment.

Forex is a market of high leverage and fast trading. However, it is also a market that can change rapidly, leaving you blindsided. This is the reason, a thorough understanding of the foreign exchange market must be developed before you enter into it.

Forex Is Different

Forex is a very different market. In all other markets, you trade various securities for your money. The variables are quantifiable to a great extent. You can know most of the things or at least live in an optimistic presumption that you know most of the things. Forex doesn't offer this luxury for the most part. Here, you only trade money for money. Usually, the beginners are just making wild guesses because the decisions that affect the money market are usually taken at the very top by the big guns, and hence most of the time, you are as knowledgeable as the bull outside the stock exchanges.

In investing, the fundamental analysis of stocks plays a very important role in determining the future value of the stocks and their viability. In forex, fundamentals don't play a very active role for retail traders. This is not to say that fundamental analysis is useless but to indicate that this market is so volatile and fast that technical analysis would primarily remain the basis of most of your trading decisions.

It is a wide field, and the price movements are affected by the central bank announcement, big key government decisions, and the actual balance of trade between countries. Even small movements in the value of currencies can have a big impact on individual portfolios. From the management of the spread to loss management, there are several important factors that a trader needs to keep in mind. This is a trading market with no visible commissions and brokerages yet people can lose a substantial amount of money if they fail to understand and factor in the currency spread. These are a few factors that make Forex different from other marketplaces.

High Leverage and Higher Risk

One of the most striking features of the currency market is that you can get huge leverage. This means that even if you invest as little as $100, your broker may give you leverage up to fifty times the money invested. This means you will be able to trade for $5000. Now, although this increases your chances of earning more profit as you are trading for a greater sum, the chances of losing even more also increase considerably as you will be holding assets worth much more than your risk bearing abilities. In case the tide turns against you, there is a high probability that your account may get wiped clean, and you may still owe some more to the broker.

Leverage is the key term to understand here. Most people misread the term 'leverage' and face huge losses and end up in a debt trap. There is no way you can afford to misunderstand leverage in forex trading. We will discuss leverage and the role it plays in forex and the ways you can manage it properly while making your trading decisions.

It's A Mesmerizing and Terrifying Terrain At the Same Time

Forex offers a world of opportunities. However, it is like the Pacific ocean, very deep and highly unpredictable. If you are a person who hasn't been able to do well in the equity market and you are looking for greener pastures in the Forex, then you are headed in the wrong direction. Irrespective of the fact that earning money in Forex is comparatively easy and fast, it is not a market for the people who don't have the patience and perseverance to succeed in the stock market.

You must make no mistake; Forex isn't easy. It will pose greater challenges in front of you and put you in tough spots more often than you can think. Earning money in Forex is easy but maintaining that profitable streak consistently is very difficult. Less than 10% of the people in the world who enter the world of Forex survive for more than 5 years.

Fact: Even the best players in the market will lose their money in some trades.

Now consider this: Even if your 80% of the trades are successful and only 20% of the trades end up in a loss, you will still be losing a substantial amount of your investment.

Mind you: A substantial amount of your investment and not just the profit. This is a very important lesson you must always keep ingrained in your mind. This is to simply cement the fact that forex trading is not a betting game, unlike what most people would like to believe. A very high number of people end up wiping out their complete account clean in a single bad trade. Many a time these are the trades that were going good, initially. A little bit of temptation, a little bit of hesitation, and a lot of anticipation is the real killer in forex.

Forex trading is a marketplace for the most well-disciplined and patient traders who will trade, keeping all their prejudices aside. If you are a person who is easily excitable and gets anxious even at smaller things, then probably forex trading is not the best of the choices for you. It is a trading that will always keep you on the edge of your seats.

Now that you have received your fair bit of warning, let us head straight into the meat of the matter. We will now try to understand forex trading in simple and clear terms so that you can grasp every bit of it.

Chapter 3: Understanding Forex Trading

What Is Forex?

Forex is a term used to mean Foreign Exchange. In all other segments, we buy or sell something in exchange for money, but here we are simply trading currency of one country against the currency of another.

Why would we do that, you may ask?

This is a very important question, and it holds the key to the dynamics of Forex.

Let us try to understand this in a bit detail so that the concept of currency value always remains clear in your mind.

Ours is a world of producers and consumers. These are the only two kinds of activities that we are doing all the time. Even when you think you are not producing or consuming anything, you are.

Consider the beginning of your day.

You wake up and go to the washroom to freshen up. You'll be using toilet paper, water, electricity, soap, shampoo, conditioner, toothbrush, toothpaste, towel, and several other such things just to get ready in the bathroom itself. You need to pay a price to buy these things, and you are a consumer.

You have your breakfast. Nothing on the breakfast table is produced by you. You need to buy all of that, and hence even that is a consumption activity. You have bought your car and paid a price for that.

You reach your workplace and start your work. Now you are producing. Whatever product or service you deliver, it would earn money, and hence it is a production activity.

Therefore, you'll appreciate the fact that although we may not notice, we are either engaged in the act of consuming or producing.

Now, look at it on a macro level. There was a time when people are societies used to be self-sufficient. Some tribes in the Amazon may still be self-sufficient. The sentinel tribes the Andaman Islands are self-sufficient for sure as they have not had any contact with the outer world for thousands of years. They live on their own with their limited means. They eat what they find on the island and mostly hunt for their food.

However, most of the world can't live like that anymore. It is the time of globalization. The iPhone is designed in the US, produced in China, and launched all over the world on the same day. A person living in Madrid can buy the iPhone on the day of its launch, much like a person living in New York.

But how does this happen? What makes this trade successful?

If you have been paying attention, there are three countries we are talking about. These countries have their respective currencies.

Owner: The iPhone is an American entity. Therefore, the company getting the final profit is American. It would only accept money in the US Dollar.

Producer: The company manufacturing iPhone is Chinese. It is providing service by manufacturing a trademark product. It gets paid for the service. It would need to be paid in the local Chinese currency Yuan.

Buyer: The buyer here is located in Spain. The buyer will be paying in the local currency Euro. While the Euro is the acceptable currency in all the countries in the European region, it may not be the same for making payment to the owner or producer.

What Would Make the Trade Successful? Forex.

Forex is the key to global trade. Earlier when there was no established currency trade medium fixed, the traders used to buy or sell their goods in exchange for gold or other valuable goods as the currencies of the buying party held no meaning for the people living in foreign lands. They practically followed the barter system.

Why Was There a Need to Change the System?

The world had realized long ago that the barter system was inefficient, inconsistent, and inconvenient. It was not possible to trade easily if the barter system was followed. Additionally, the trade was neither unidirectional nor rare.

This meant that all the countries are producing and exporting something or the other that other countries need, and it has become more common than men with mustaches these days.

This means that although the importers of Spain need US dollars to purchase the iPhone, the US importers also need Euro for importing the Civilian aircraft parts from Spain.

This means that all countries need to maintain some foreign cash reserves of other countries. The market that makes the exchange of foreign cash reserves possible is the **Foreign Exchange Market**, **Forex Market**, or the **FX**.

Does this Mean Any Country Can Pile Up Any Amount of Foreign Reserve?

Technically Yes, if a country can afford, then it can certainly pile up large amounts of foreign currency which it needs frequently. However, there are several restraints as the piling up of foreign currency reserves has a high cost. The cost of currency is not static and the more foreign currency you try to buy instead of your currency the greater will be the devaluation of your currency.

The Currency Prices Aren't Static

This is a very important thing that you must understand clearly. The currency prices are not static. They are dependent of several factors like the foreign trade of a country, its GDP, political and economic strength, the faith of the foreign investors in its economy, central bank policies of that country, the demand of the goods produced by that country, and many other such crucial factors.

Other than these factors, the market dynamics of supply and demand are also responsible for variation in the value of a currency, and hence countries cannot afford to keep stocking foreign reserves that they might not need actively.

If there is a currency that fluctuates in its valuation or if the political, social, and economic situations in that country are not good, then also that currency's valuation may suffer in the forex market.

The simplest way to understand is that countries that are major exporters will have good currency valuation as their currencies would remain in demand. Their consumers would need to buy their currency to pay for their imports, and hence the demand for that country would shoot up. Due to high demand, there would also be a high volume in that currency's trade and that also plays as a positive influence.

A country with poor exports and high import dependence would need more foreign reserves to pay for the imports, and hence the value of their currency would go down due to low demand.

What Is the Role of Forex Trading?

Forex trading plays a very crucial role in maintaining a transparent currency valuation system. Central banks, importers, exporters, hedge fund managers, and retail traders participate in the open trading of currencies that helps in determining the value of currencies.

The majority of foreign currency trade is carried out Over the Counter (OTC). This means that there are no centralized exchanges for forex, unlike the securities exchanges in most countries.

There are around 193 UN-recognized nations today, and they use around 180 legal tenders for facilitating trade inside their country.

The forex market helps in determining the actual value of a currency in the open market through free and transparent trading.

Major Players

Although currency notes are printed by the central banks of the respective countries, the real value of the currency can only be determined by the open market. To understand this fact clearly, you must take the example of the Zimbabwean dollar. As per WSJ reports 2015, the value of 100 Trillion Zimbabwean dollar note was 40 US cents. The currency was practically worthless, and that's why even the ATMs dispensed only very high denomination notes as it was practically impossible to purchase anything through them.

The economy of the country was in despair, and the government did not take the route of economic reforms. It started printing currency notes of high denomination rendering the currency worthless.

Three major players influence the value of the currency:

Central Banks: The central banks have the biggest role to play in the value of the currency. They have the biggest reserves of foreign currency to facilitate international trade. The fiscal policies, interest rates, reserve rates are some of the important things that also influence the valuation of currency, and they are also announced by the central banks.

Importers and Exporters: They influence the demand and supply mechanism. The export intensive countries would have a trade surplus, and hence the strength in their currency would be visible as their currency would be more in demand to purchase the goods. The reverse would be true for import-dependent countries as they would need more and more foreign currency to meet their demands.

Retail Speculators: This category includes everyone interested in currency trading. The retail traders can speculate on the price movements on a short or long term basis.

Any, some, and all the three factors can influence the valuation of currency of a country. The trader in Forex stands a chance to benefit by speculating the trend in the right direction.

This means that if you believe that the value of the US dollar against the Euro is going to go up, then you can put this knowledge to work by shorting or selling the Euro against the USD. Whatever movement is observed would be your profit minus the value of the spread.

Forex is a highly lucrative segment because the rules of the game are very simple. You will only need to pick two currencies from the list of 180 available currencies. Then, predict the movement in the price of those currencies. The higher or lower the currency goes beyond your predicted price, the greater would be your profit.

Advantages

The forex market moves very fast and aggressively. Most of the time, the trades in major currencies get executed as soon as they are placed. This means that you can place numerous trades within a day.

There is no brokerage or commission as such in forex trading, and hence you can trade without the fear of hidden charges or costs. However, you will be required to cover the cost of the spread to make any profit. The spreads are usually very small in major currencies and covering the spread is easy in them. However, if you are trading in minor or exotic currencies that don’t see very high volume, the spread can be pretty wide, and managing them can get difficult.

One of the biggest advantages of forex trading is that you can try your luck here even with smaller amounts of money. The secret to this convenience is high leverage. Although in the US the highest permitted leverage amount is 50 times, there are brokers around the world ready to give leverage as high as 400 times. Although high leverage increases the risk of the retail trader considerably, it does offer the opportunity to earn great returns even with paltry investments.

This is a market that's up and running all the time. The forex is not run through any centralized exchange, and hence you can practically trade all the time. You are trading currencies of different countries and they might not be in the same time zone. This means that even when the market in your country is closed, you can see action in your currency pair due to market movement in another corner of the world. The opening and closing timings of the Asian, European, and US markets are different. The highest action and volatility in the currency market is during the opening and closing times of the markets, especially the European markets. Therefore, if you choose your trading schedule accordingly, you can earn a lot from these high volume sessions.

The best thing about the forex market is that it isn't dictated by a single authority. No entity sets the rules of the game here. This is a market completely dictated by the market forces, and hence that offers complete transparency. Therefore, if you are afraid of mergers, acquisitions, hostile takeovers, insider trading, sudden failure, data secrecy, and other such things that affect trading, forex can give you the best platform. Here, there is no single event that can completely influence the price valuation. Even in the case of a severe market crisis, the markets can only move to a certain extent. For instance, even during the Fukushima disaster in Japan in 2011, the total did in the valuation of the Japanese Yen was not as severe as most people had expected. It was a price dip brought by a disaster and the JPY Yen recovered its position as soon as things went back to normal. Contrary to that, the blow caused by the 2008 market crash took years for complete recovery and people still feel stung by it.

If you are keen to learn forex and you are ready to move with an action plan, then this segment has a lot to offer. However, before you move in, you will have to remember that it is a high-risk segment. Despite all your efforts and precautions, things can go against you. As long as you are keeping your risk low, the portfolio diversified, and leverage in control, this segment will have great opportunities to offer.

Chapter 4: Major Currencies and Currency Pairs

Forex is all about currencies. In all other segments, you buy something in exchange for money. In the forex, you buy the currency of one country in exchange for the currency of another.

The business is simple. You need to **assess** the **relative valuation** of a **base currency** with **counter currency**. Here, all parts of the sentence are important, and we will try to understand them individually.

Assess: Your bias about the valuation will form the core of your trading strategy. If you believe that the currency will perform strongly, you would choose to go long, and if you feel that the currency is going to depreciate, you should short it.

Relative Valuation: In the forex, we don't determine the actual value of a currency. There was a time when a gold standard for currencies was followed, but that's a thing of the past now. In forex trading, the currencies are valued against each other. This means that while the US dollar (USD) may be going up in value against the Japanese Yen (JPY), it could very well be going down against the Euro (EUR) at the same time. This is an example simply to demonstrate that in forex, there is nothing like absolute value.

Therefore, whenever you are thinking of pitting one currency against another, your focus must be on the things affecting the valuation in relative terms and not just about the overall condition of the economies of both the countries. While the economy of a country may be doing excellently well, the currency of that country may not perform that strongly.

Let us consider the example of JPY. Japan is an economically sound country, but the valuation of its currency against the USD is usually low. The reasoning behind this is not some economic factor but it is kept so intentionally. Japan is an export-intensive country, and increasing the valuation of its currency can hurt the importing countries and in turn, the exporters in Japan. Therefore, to safeguard the interest of the business in Japan, the valuation of currency is kept fairly static. If the valuation starts to go up, the Japanese government and central banks use economic measures like lowering of interest rates, injection of more money, etc. to keep the valuation low.

Base Currency: This is your speculation currency. It is the currency about which you hold a negative or positive bias for a specific period. In simpler terms, this is your transaction currency.

Let us understand it by observing the following currency pair:

USD/JPY

In this, USD is the base currency.

All your profit or loss in the transaction would be calculated based on this currency, and that's why it is called the base or transaction currency.

Counter Currency: This is simply the reference currency. The appreciation or depreciation in the value of your base currency will be calculated against this currency, and that's why it is called the counter currency.

The money required to trade will be calculated based on this currency because you are effectively trading your base currency against it. You are practically buying or selling this currency in exchange for the base currency.

In the pair give below:

USD/JPY

JPY is the counter currency.

In forex trading, you simply speculate whether a currency is going to go up or down in price in comparison to another specific currency. You don't need to pick a specific currency. You will have a very wide choice.

As we had discussed, there are 180 legal tenders in this world. This means that against your base currency, you will have 179 counter currencies to choose from.

There are no hard and fast rules for this. There is no restriction on choosing the base or counter currency. You are not bound to choose the currency of your home country as the base currency. It need not be there at all. Forex trading is all about picking one currency as the base currency and another as the counter currency and correctly speculating the price movement within a specified period.

However,

Does this mean that all the currencies are the same?

Of course not!

Like in Hollywood, there are A-listers, B-listers, and the stars that come for special appearances. In forex trading, there are major currencies, minor currencies, and exotic currencies.

USD is the dominant currency around the globe. It is also the most wanted currency for trade, as the US is a major exporter. High-interest rates, limited circulation, the strength of the US economy, and high GDP are some of the reasons that make the US dollar so desirable.

7 different countries have adopted the US dollar as their currency. Not only this, but around 89 countries in the world also keep their currencies in a tight trading range with the USD.

USD is a currency that rules the roost in forex trading. More than 90% of trading in the forex market involves USD.

A major reason for such a high demand of USD also lies in the fact that around 40% of the international debt is issued in it. Therefore, the central banks of the borrowing countries have to maintain USD reserves, and a lot of business is conducted in USD. These reasons make it an in-demand currency in the forex world. It is also the star in the A-lister's club.

A-Listers- The Major Currencies: As you may easily guess, the A-listers or the major currencies are the in-demand currencies. These are the attention seekers. They get most of the work and get the highest coverage in the media. The currencies of some of the most developed countries come under this list. On a broader scale, there are 8 major currencies.

B-Listers- The Minor Currencies: The B-listers are the minor currencies, and they are also doing fairly well for themselves. They are called minor currencies simply because of the comparatively low volume of trade carried out in them. This is not a rating of the economy. The minor currencies are those in which forex trading is conducted in low volume. These may be countries with lower imports and exports.

Special Appearance Stars- Exotic Currencies: These are currencies from those countries that do not carry out a lot of international trade. It would be more accurate to say that their share in international trade is low.

These countries may be having mutual trade with countries but not very hectic international trade creating a need for high volume currency exchange.

These can be countries specializing in certain trades, and the importers and exporters in these countries would be conducting forex trade. A major role of forex trading is in hedging against the change in the value of the counter currency. Importers and exporters conduct forex trade because they want to hedge their position to secure future profits. Therefore, forex trade is also conducted even in these currencies but the volume is not so high as you will observe in major currencies.

Further in the book, you will also be able to understand the importance of high trade volume and the impact it can have on the speed of transactions, cost of the spread, and profit margins. This is a reason the trade in these currencies is low, and people prefer to trade in major currencies.

In forex trading, you must pick your currencies very carefully. Most people believe that they can simply pick a currency just because they know it belongs to a certain country. This can land you in great trouble. Picking the right currency is as crucial as picking the correct stock. You may pick a very fundamentally sound company that was looking good on the financial statements, but there might be some serious trouble brewing on the board. If there was news and you still didn't pay attention, the strong balance sheets will not be able to prevent the sinking of the stock.

There can be many other factors that can have an impact on the performance of stocks of a company other than financials.

In the same way, currency may be showing great signs but a single announcement of drastic interest rate cuts in by the central bank of that country can cause great damage. Big investors would start drawing their money for better interest. Inner social, political, and economic turmoil in an economy can also have a big impact on the performance of a currency. You will have to keep all these things in mind while picking your currencies.

You must always remember that currency trading is very different from stock investing in many ways. While investing in stocks, the fundamentals of a company are very important as you want good returns over a longer period, and you wouldn't want your money to get stuck or depreciate. When trading stock, you would need to keep the price action in mind and moving averages and trends become paramount. Some big-key announcements can also give a boost to your trading.

Forex trading would require a mix of both. Investing in major currencies and keeping their financial standing in mind would help you in taking care of the fundamentals. However, the real focus would remain on the technical analysis as a quick price movement is the most important thing you would need.

In forex, we are usually looking at narrow margins or spreads and high volumes, and hence the faster and numerous the transactions are the higher would be your chance of earning more money, and your risk would also get lowered. Correct technical analysis and the right indicators can help you in assessing these things more accurately. This is easy when dealing with major currencies as the volume in major currencies is generally very high. This makes major currency pairs the first choice of the traders.

The volume in minor currencies is moderate, if not high, but it becomes more region-specific. Therefore, the minor currency pairs are the second choice of traders and need specialty in specific currencies. If you want to trade minor currency pairs, you must understand the geopolitical scenario of the region clearly and must have a strong grip on the technical indicators.

The exotic currency pairs are not traded very heavily beyond the region as the volume in those currencies is very low. These are not the currency pairs that have the attention of retail traders globally. These currency pairs are traded within those countries, and hence when trading in exotic currency pairs, you must have specific information about big events or you can be looking at large spreads and very low volumes. You will also get bound by time-zone for trading in those currencies are the buyers in specific currencies are generally localized.

Major Currencies

Let us have a look at some Major Currencies and the reason they are traded in such high volumes.

The basic criterion for a major currency is high trade volume in that currency. Mainly 8 currencies witness the largest volume of trade in the world. More than 90% of the global forex trade is carried out in these currencies. It is easy to understand that most of these countries have high export volume, and they are the providers to the world in various segments.

1. US Dollar (USD)
2. Japanese Yen (JPY)
3. Euro (EUR)
4. British Pound (GBP)
5. Chinese Renminbi (CNH)
6. Canadian Dollar (CAD)
7. Australian Dollar (AUD)
8. Swiss Franc (CHF)

The US Dollar (USD)

This is the highest traded currency in the world, with a daily trading average of $2.2 trillion. Issued by the Federal Reserve Bank, it is the official currency of the United States of America.

The post-recession resurgence saw a steep rise in the value and trust in this currency. Post World War II the US emerged as a superpower, and the idea of American supremacy was entrenched on the global financial scene. Thereafter, several countries and economies failed but the US maintained its position and kept on making economic progress and this strengthened the belief of the world in it. As mentioned above, more than 40% of international debt is issued in USD. It is also an internationally accepted currency for major trades. This is a reason most of the central banks in the world maintain healthy USD reserves. This is a reason the demand for USD in forex trading is always high. It also makes the USD an integral part of every major currency pair.

Another fact that makes USD so reliable is the political, social, and economic stability of the United States of America. For a major portion of time after the second world war, the US dollar has been the intermediate currency even for the exchange of other currencies. For instance, if a Brit wanted to convert GBP into CAD, he/she would have to first convert GBP into USD and then convert USD to CAD. The USD was treated as the gold standard, and cross-currency conversions were very difficult without the use of USD. Although that has become a thing of the past now, the global acceptance of USD is still there.

The things that make USD such an in-demand currency are:

- High trust

- Very high volume
- Global demand

Japanese Yen (JPY)

Japanese Yen is another currency that attracts a good amount of attention from the forex traders. It is a currency that’s heavily traded even beyond the Asian region. Japan is a heavily export-oriented country. Technological exports are its forte, and it trades with most of the countries in the world. This means that most of the countries that purchase Japanese products would need JPY to pay for them. This ensures a steady demand for JPY in the market. On average, the daily trading volume of JPY stands at US$550 million. Most countries also like to maintain healthy JPY cash reserves to fulfill this demand and hence it observes a good volume of transactions. Another reason for the good interest of traders in this currency is the balanced price movement of this currency. The Japanese government keeps a good hold in the valuation of the currency for safeguarding the interest of its exporters. This gives a cushion to big traders against drastic movements.

Euro (EUR)

It is the most popular currency in the European region. It observes trading in very high volume, and hence it is very suitable for frequent trading. The daily average transaction of EUR is to the tune of US$800 million. It is the official currency of the European region and European Central Bank issues it. There is a great acceptance of EUR in the region and 19 out of 28 countries in this region accept it. The European region is the hub of forex trading and that also makes the EUR a hot potato.

This region carries out a lot of foreign trade and also has a major stake in world tourism, and both these things pave the way for favorable demand of Euro. As far as trading volume is concerned, EUR observes great volume in the region. In terms of trading volume, the demand for EUR is comparatively way higher than the GBP which is a much older and credible currency in the world.

British Pound (GBP)

British pound (GBP) is one of the oldest currencies of the modern world. It is a currency that has ruled the roost for a very long period simply because Britain had colonies over a substantial part of the world up until the second world war and for even a period after that. Although the time of colonization is long gone and the old reign of GBP is over it is still the official currency of the United Kingdom and all its territories. It is issued by the Central Bank of England and observes a daily trading volume of over US$325 million. GBP is an in-demand currency, and that makes it a part of major currencies. You'd observe a fairly large volume of trading even in GBP.

Chinese Renminbi (CNH)

This is the second currency from the Asian region, and it has started garnering good attention of the world. Lately, China has emerged as the factory of the world. The biggest technology brands are moving their manufacturing units to China for cost-efficient production at a rapid scale. China dictates in producing goods at low costs and that has even left many countries scared as they are not able to compete with China in terms of pricing. Although many big brands are emerging out of China, even if you look at China as a simple service provider, its bill to the world is huge. This has created a demand for the Chinese Renminbi (CNH).

China has a huge export surplus, and most countries need CNH to pay its bills. The daily average trading volume in CNH is comparatively low standing at US$101 million but it is rising at a phenomenal rate. China has claimed its place as one of the largest economies in the world and soon that would also reflect in the trading volume of CNH.

Canadian Dollar (CAD)

CAD is a highly traded currency with a daily trading average of US$130 million. It ranks sixth in the world when it comes to trading volume. High trading in CAD can be attributed to the mineral export carried out by Canada. It is a land rich in mineral wealth, and hence countries importing minerals from Canada do need to maintain healthy CAD reserves.

CAD is a highly active currency, as its valuation is linked to the commodities market. This keeps it open for speculation trade too. It is a stable and prosperous country with sound fundamentals and hence its currency remains in good demand.

Australian Dollar (AUD)

The Australian Dollar AUD is another major currency in the world. It is the fifth-highest trading currency in the world and observes an average daily trading volume of US$174 million. Like Canada, Australia is also a major exporter of mineral wealth, and hence even the valuation of its currency is highly influenced by the commodity market. The better the performance of the commodities in the market, the greater would be the valuation of AUD. You must keep in mind that Australia is a major exporter of commodities like iron, copper, and coal. It also imports oil in large quantities and hence the demand for USD against AUD is also high as the payments for oil are to be made in it.

Swiss Franc (CHF)

Switzerland is a land best known for its scenic locations and financial institutions like banks. High-quality financial services, banking secrecy, and sound monetary policies make it a banking hub and a place where people like to park their money. Switzerland has maintained a neutral stance even in the fierce world wars, and hence the world trusts its financial institutions for stability and functioning.

A very large part of Swiss trade is centered around Europe. With the lowest levels of debt, Switzerland enjoys a very sound reputation around the globe, and that provides great strength to its currency. The daily trading volume observed in CHF is US$122 million.

Major Currency Pairs

USD/EUR
USD/GBP
USD/JPY
USD/AUD
USD/CHF
USD/CAD
USD/ CNH

These are the major currency pairs in the world. You will observe high trading volume in these currency pairs, and even the bid spread would be very thin. These two factors play a very important role in forex trading as they enable you to trade even at lower margins.

These are major currencies, and hence people are always looking for these currencies and that also explains the high volume of trading in them. You can expect multiple standard lots to get filled rapidly with these currency pairs.

You would observe that the USD is an essential part of every major currency pair. We have discussed the reason for this. It is one of the highest traded currencies in the world, with a daily trading volume greater than US$2.2 trillion. This means that if you are trading in USD, you can expect great volume.

Minor Currency Pairs

EUR/GBP
EUR/JPY
AUD/CAD
GBP/CNH

As you can observe, these currency pairs have the remaining seven currencies besides USD. Although the trading volume would be comparatively lower than experienced with USD, yet you can expect high trading volume during the region-specific trading sessions.

Exotic Currency Pairs

- Polish Zloty
- Indian Rupee
- Czech Koruna
- Hungarian Forint
- Russian Ruble
- Mexican Peso
- Brazilian Real
- South African Rand
- Turkish Lira
- Singaporean Dollar
- Hong Kong Dollar
- South Korean Won
- Thai Baht

- Malay Ringgit
- Indonesian Rupiah
- Norwegian Krone

These are some of the currencies that fall on the list. For a beginner, this is not the list to consider. Exotic currencies are those that do not observe high trading volumes. They have limited, and specialized trades with other countries, and hence the demand for specific currency pairs would depend solely on the exports and imports. This is something that requires great research and understanding.

Even if you can determine the trading volumes accurately, it would be very difficult to assess the social, political, and economic conditions in the country along with its geopolitical dynamics. These are the things that can change rapidly, and hence beginners should stay away from these currencies if they do not belong to any of these countries specifically.

As a beginner, you must understand that forex can be a very complex subject. It not only factors in the economic factors but also the political and social circumstances. The more you lean towards the major currencies, the safer your trading would remain as you would still be in a low-risk zone.

The price movements in the major currencies are generally between a zone, and hence the risk is managed. The volumes are high and hence even if you are trying to trade numerous standard lots, you may not face a problem. This can become a serious concern while trading in exotic currencies.

The third and one of the most important factors to consider is the thin bid spread in the major currencies as compared to exotic currencies. In major currencies, you can see bid spreads of a few pips, whereas the bid spreads can be as high as 30-40 pips in exotic currencies due to the low volume of trading.

Major Forex Markets

As mentioned earlier, forex trading is not run through a central exchange. Currencies are traded globally. Countries in the world follow different time-zones, and that dictates the time when a certain market opens.

There are two periods of high trading in the forex market. The opening sessions and the closing sessions in the market observe the highest volume of trading. The trading goes on throughout, but these are the two sessions in every time-zone that experience the highest volume of trading.

Even all time-zones are not the same. The Asian markets are slow, but the European market and the US sessions would see a very high volume of trading.

A good trader would always choose time-zones carefully. You'd always want to pick the busiest time-zones so that you can get the traffic of most sessions.

The Asian Market: This is the first to open market in the world as it lies in the east. However, this is the market with low-activity. The traders don't experience high trading volumes besides the opening and closing sessions. A big reason could be the absence of the US and European traders.

The European Market: You'd notice the highest level of activity in this session. This is the region that trades with almost every part of the world, and the forex market has been controlled and dominated by this region historically too. It is also the region for some of the major currencies in the world and that's why the traffic is high.

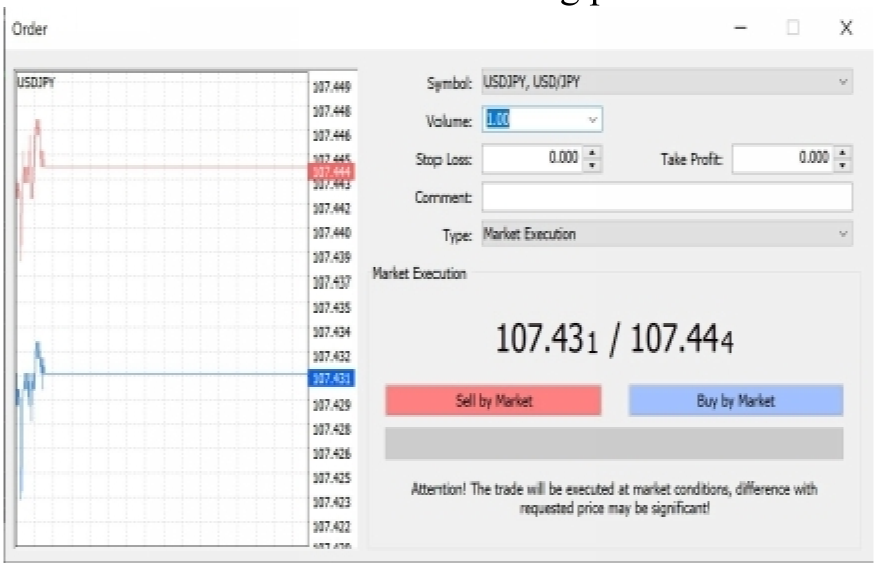
The US Market: It is a country home to the biggest consumers and producers in the world. The trading volume in this session is naturally high. The world also has a keen interest in the USD, and that also explains the high trading volume in this session.

If you want to have the juice of forex trading, you can begin during the mid-session of the European market because around this time; even the US market starts to open up, and hence you will be able to catch multiple trading sessions with high volume trading.

Chapter 5: Currency Quote

The currency quote is the basic step toward forex trading. It is essential to understand all the elements.

A basic order window in the trading platform looks like this:



Base Currency and Counter Currency

This is the first thing that you'd see in this terminal. The base currency and the counter currency are mentioned at the top. They would also be given in the symbol window.

Base Currency: In this example, the first currency mentioned is USD.

This is our base currency. The base currency is written first.

This is the currency against which the trade would be made.

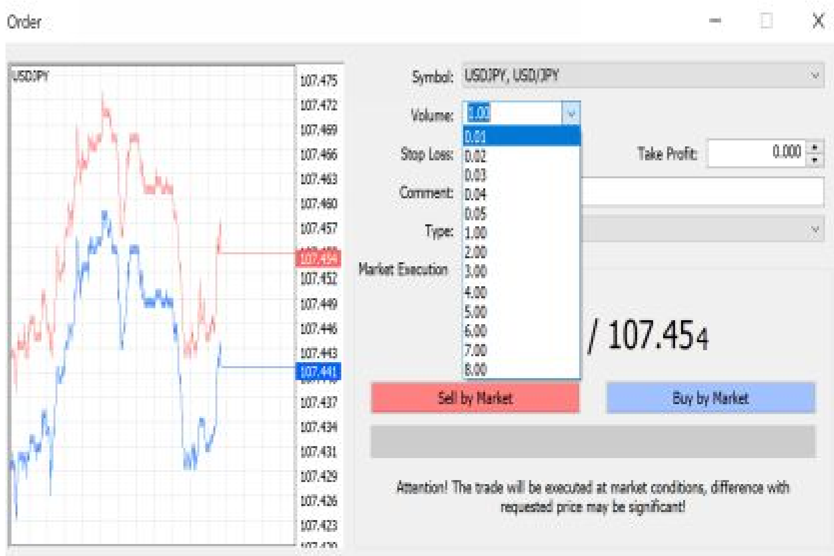
Counter Currency: This is the second currency written after the base currency. Here, our counter currency is JPY.

All your speculations would be about this currency.

Volume/ Lot Size

This is the second value that you'll see in the order window.

You must understand the lot size clearly.



A clear understanding of lot size in forex is important because you can't buy individual units in the forex. Currency can only be purchased in lots. The lots vary in size like a standard lot, mini lot, micro-lot, and also a nano lot.

The values you see in the volume column represent the quantity that will be acquired.

The four common lot sizes are:

The Standard Lot: It is denoted by **1.0**

A standard lot has 100,000 units of currency. This means when you are placing an order for 1 lot; you are buying 100,000 units of that currency.

3 standard lots will be denoted as 3.0. This would mean 300,000 units of currency.

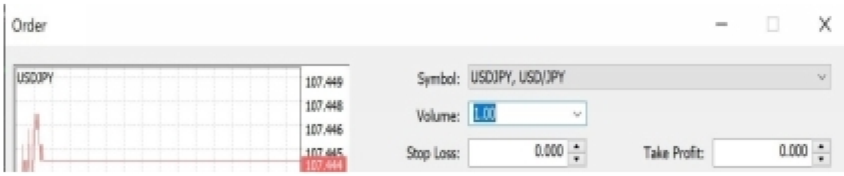
You must keep in mind that a lot is big, and hence while placing order attention must be paid to the unit.

Mini Lot: It is denoted by **0.1** in the volume section, and it represents 10,000 units of currency.

Micro Lot: It is denoted by **0.01** in the volume section, and it represents 1000 units of currency.

Nano Lot: It is denoted by **0.001** in the volume section, and it represents 100 units of currency. Nano lots may not be offered on all the platforms.

Stop Loss



This is one of the most important values for you. Even before you contemplate placing the order, the stop loss should be clear in your mind. This is the value of the hit you must be prepared to take in the case the trade goes against your expectations. Placing a trade without a clear stop loss is like bungee jumping without a rope. The fatality is not probable but certain.

Forex values change very rapidly, and the spreads are very thin. Most traders are trying to earn money through scalping and they are not sitting for very big gains in terms of margin. Even if you have that in mind, you must have a figure in mind that you are ready to sacrifice in case the trade doesn't perform as per your expectations.

The stop loss is the maximum loss you are ready to bear in anticipation of a favorable trade. This is the value below which you must get out of the trade compulsorily.

Most people calculate stop loss on the percentage of their investment.

Ideally, no trader would like to lose even a cent. However, the market doesn't function on likes and dislikes. If one currency goes up, another would go down. Therefore, the loss is a part of the game. No matter how well you speculate, there will be some trades that may not perform as per your expectations.

Fear and Greed are two very strong emotions that can grip any trader in moments of stress. They overpower the rational thinking mind and make your emotions take over.

When a trade starts going wrong, most beginners like to live in the bubble that the market would improve very soon. 'Fear' takes over their decision-making powers, and they are not able to cut the trade at the right time. This is the beginning of doom.

No matter what the market might do after a few minutes, you must take action immediately. If you expect the market to improve, the market will prove you wrong for sure. Stop losses can help you in that.

As a beginner, your stop loss should be between 1%-2% of your total account value. Ideally, you must try to limit your losses below 1%.

1 percent might look like a small number, but it isn't when it comes to the lot sizes in forex.

Most people don't realize a simple fact that their real investment in the account is comparatively very low as compared to the number of assets they are buying. This whole game gets complicated when leverage comes into play. We will be understanding leverage in detail ahead in this chapter.

Here, it will suffice to understand that you will be buying larger quantities, and hence even the loss of a few pips can mean a substantial reduction in your account balance. Therefore, you must set a clear stop loss within that range.

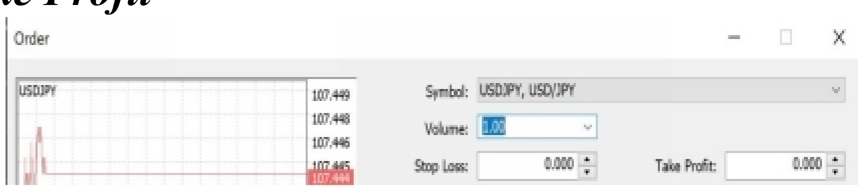
Some people have a mentality to change their mind about the amount of loss they can bear. As the trade starts going down, they start lowering the stop loss. This is a dangerous feat. By doing so, you will be pushing your account towards bankruptcy.

Set a stop loss within the ideal range, and don't change it no matter what happens. There will be times when the trades may rebound after going a bit lower than your stop loss and on those days you might repent a little, however, there will be many more days when the trades would never recover once they go below the stop loss and you'll be thanking your stars on all those days.

Therefore, as a rule of thumb:

- Always a set a stop loss
- The stop loss should be between 1%-2% of the account value
- You must never change the stop loss in-between the trade

Take Profit

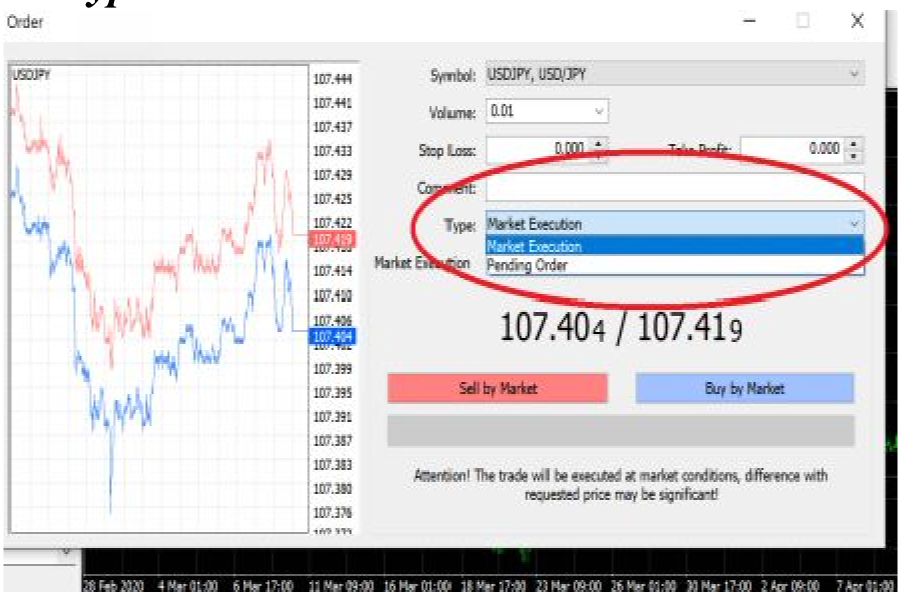


Just beside the stop loss counter, you can also notice the take profit column. This is another column to help you win over one of the two driving forces in trading 'Greed.' This is no hidden fact that many of the trades that become unprofitable were in the green once but you are not able to book profit then because you are expecting it to go much higher. Greed takes over our mind and we want to reap more profits.

This is another mistake that shouldn't be committed.

You must set the expected profit in this column and let the trade square off once it reaches the trigger value.

Order Type



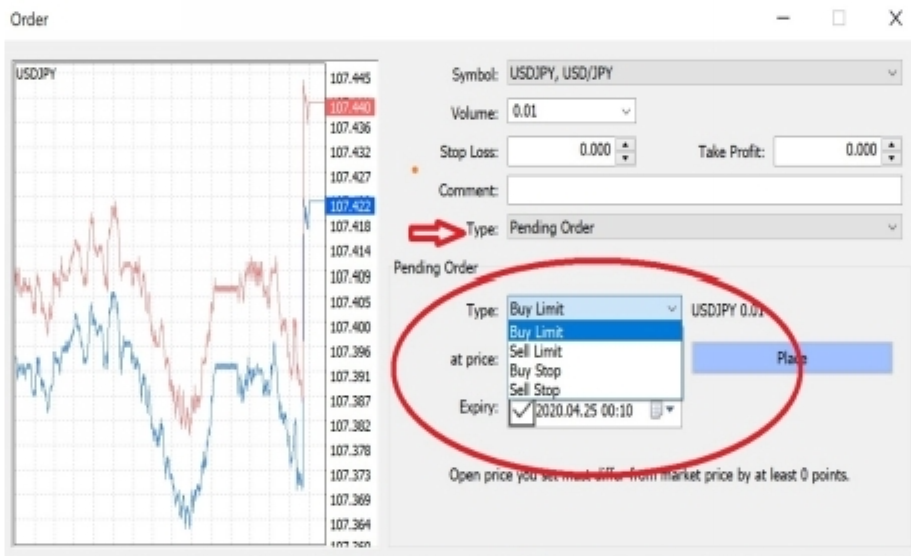
This is a very important section in your order form that would help you in setting the type of order you want to place.

Order types are essentially the instructions about how you want the trade to get executed. Various order types give you greater control over the order pricing and execution.

Market Order: This is the simplest of all order types, and it should be placed with great caution. Generally, a market order should only be placed when you want to buy the required quantity of the asset at its current market price. Here, it is important to understand that while placing a market order may give you better chances of getting the required quantity, it gives you no assurance that you'll get the asset at the current market price.

When you place a market order, it starts getting executed at the current market value until the desired quantity has been filled. The market prices are not stagnant. They are always changing, and hence they can even change while your order is getting executed and hence there is all the chance that your order might get executed at a bit higher price.

Limit Order/ Pending Order



Pending Order: This is the second type of order you'll find in the Order Type drop-down menu.

This is usually the better choice for filling out orders as it gives the trader better control over the price. You must keep in mind that price is a very important variable, and when you place a market order, the price variation can be steep. On the outset, it might just look like an increase of a few pips but the lot sizes in forex can be huge and that gap might become very difficult to fill, and hence you must have control over the price. Market orders must only be used when you are sure about some big-ticket announcements and their probable outcomes. There is one downside to this order that the chances of order getting executed at all reduce. Even if the price of the asset falls short just by one pip, the order will not get executed.

Stop Entry Order: This is an order placed to buy an asset when it has made an upward swing. The market believes that support and resistance levels are strong barriers. However, when these barriers break, they give the trader a good chance to earn money. Stop entry order gives the trader a chance to catch the upward swing without having to stay glued to the screen.

You can simply place a stop entry order for a level you believe is the resistance. Once the asset crosses that mark, your order will get executed, and you will be able to catch the upward swing. You can also catch the peaks and valleys in this swing by managing your order properly.

Stop Loss Order: This is just the opposite of the stop entry order. In this, you place a stop-loss order at the support levels, and as soon as the asset breaks the stop loss, the order will get filled. This order type can prevent greater loss that might have occurred due to sudden and steep value depreciation.

Expiry: This is the period till when you want your order to stay good.

Pips

Pip is the smallest unit of currency that we will be dealing with in the forex. Developing a clear understanding of pips is important because you will have to deal with them all the time.

Simply put, a pip is just a measurement of the unit. All your profit and loss within the trading window gets reflected in pips.

Pip is a new term, and hence it can cause some confusion. You may also be wondering that when the currencies already have their smaller units, what would be the reason to invent new units.

You are correct that the currencies already have smaller units. The dollar has cent, and the British pound has shilling. Most other currencies also have smaller units.

The problem is that in forex, we are dealing with different currencies, and hence even the smaller units of these currencies cannot be of use in denoting a fair value for both. The biggest issue it can create will be of quick understanding.

The forex is a very rapid trading segment; it may not give much time to do such calculations.

To make things simple for the traders, the values are further broken down to pips so that there can be uniformity and ease of understanding.

Let us take the example of EUR/USD

Bid Price	Ask Price
1.0941	1.0946

As you can see, the values here are denoted in decimal points.

There are two prices given here.

The bid price is the price the bank would give if you go to the bank to sell EUR and get USD. The bank would give $1.0941 for 1 EUR.

The Ask price is the price the bank would demand if you go to the bank to buy a EUR for USD. The bank would demand $1.0946 for 1 EUR.

As you can see, the difference between the asking price and the bid price is 5. This unit is known as pip.

Mathematically, a pip is the 100th part of 1%. We also call it a basis point.

The conversion will not be the same for all currencies; however, breaking it down to one basis point helps in calculating things faster. That's the reason it has been made the standard of calculation in forex.

Let us Consider Some More Examples:

Currency	**Bid Price**	**Ask Price**	**Unit Difference**
USD/JPY	109.56	109.64	8 pips
GBP/USD	1.2889	1.2901	12 pips
AUD/USD	0.6665	0.6677	12 pips
EUR/USD	1.0944	1.0948	4 pips

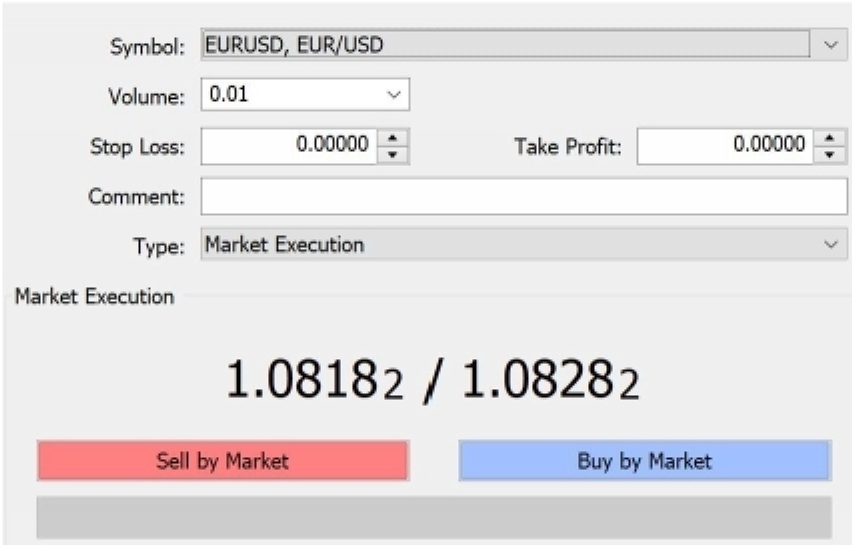
As you can see, pip is simply the smallest measuring unit of currency in the forex, and it helps in understanding the value difference easily. The difference in the pips is the difference in basis points that will finally take place.

A question can arise in mind about the need to break it down to four decimal points and also the reasoning behind leaving JPY only up to 2 decimal points.

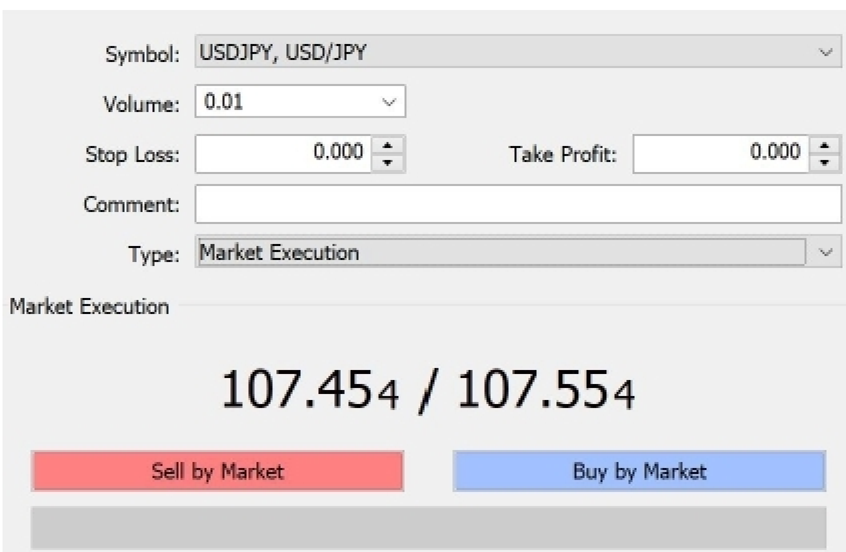
Most brokers these days even write the value up to five decimal points. The JPY is written up to three decimal points.

Please look at the examples given below:

EUR/USD



USD/JPY



As you can see, the EUR/USD is represented up to five decimal points. The fifth decimal point is known as a pipette. In JPY, the 3rd decimal point is known as a pipette.

The reason for this further division is simply to lower the cost of the spread.

Electronic forex trading has made it possible for more and more people to enter the segment. The brokers also want to have more and more customers. An easy way to lure the customer is to lower their cost.

The only major cost to the customer in forex is the cost of the spread. This cost is the difference between the asking price and the bid price. A customer can only earn a profit when he/she can cover the cost of the spread in the trade.

To lower the cost as much as possible, the pip has been further divided into a pipette so that lower cost can be offered to a trader.

There was a time when the cost of the spread could be 40-50 pips. These days major currency pairs may only have a spread of one or two pips. This can be further thinned by using a pipette.

Bid Price, Ask Price and the Spread

The bid price and ask price are two crucial terms that you should understand clearly. Many beginners make a mistake in understanding these terms and end up losing a lot of money.

Before we get to the explanation of these terms, let us discuss a scenario:

Suppose you want to buy a used fishing boat. You go to a dealer and look for a suitable boat.

You like one boat, and you want to buy it. The lowest price the dealer gives you for that boat is the Bid price.

Now, suppose you pay for the boat, but the very next day you realize that you won't be able to use it. There is no other option than to sell it to the same dealer. You go to the dealer to sell your boat. Now you are a seller and you need the money. The dealer may give you a lower price. He can give you an argument that because you have taken that boat out, he will have to paint it, do some servicing, again allocate space for display, and hence he cannot give you the same price at which you bought it. Therefore, you'll get a lower price for the same boat you bought yesterday. This price is the Ask Price.

If you look closely, this is a very common scenario.

Most of us encounter it. When we buy things, we pay more, but when we want to sell them, we may be getting lower than what is the current price in the market. We may feel that we are being cheated but it is the cost of the broker.

Most of the forex brokers don’t charge any commission or brokerage. They offer their terminal, technical assistance, financial leverage, and expertise but don’t get anything in return. This difference in the Bid and Ask price is their profit, and it is called the spread.

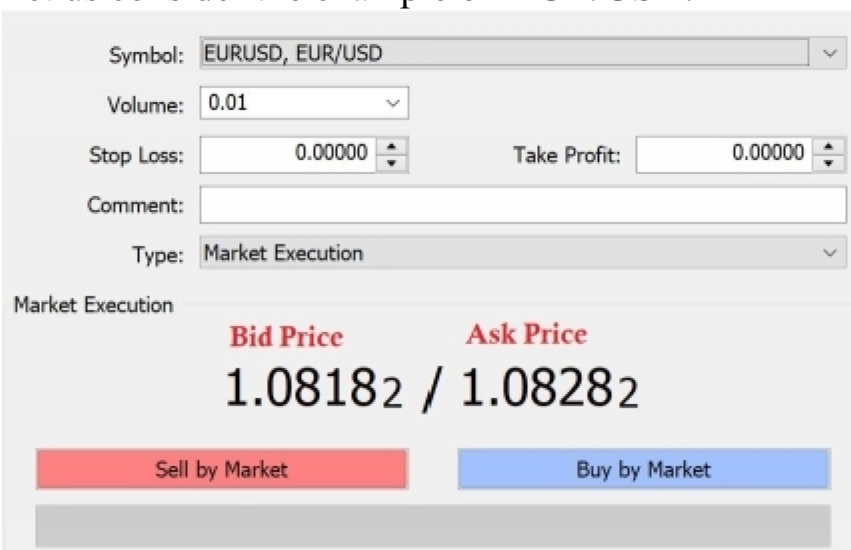
Bid Price: It is **the lowest price at which** the inter banks are currently selling the currency. It is the price written in the beginning.

Ask Price: This is the price written after that. It is the price asked by the broker to sell you the currency. You will be buying the currency at this price.

Spread: **This is the difference between the bid price and the Ask price.**

You must clearly understand that the market price of the currency is the bid price. However, you will be buying it at a higher price quoted by the broker. **The difference is called the spread**, and this spread is the cost that you will need to cover to come in profit.

Let us consider the example of EUR/USD:



Here,

The **Bid Price** is 1.0818_2. This is the current market price of the currency.

The **Ask Price** is 1.0828_2. This is the price being demanded by the broker.

The difference of 10 pips is the cost of the **Spread**.

Never Make This Fatal Mistake

There is a fatal mistake many new traders make, and then they keep thinking that they have been scammed by the broker.

They look at the bid price and know that this is the current market price of the currency.

They buy it and then start counting their profit from this very point.

If you bought EUR/USD at the current level of 1.0818_2, you will pay 1.0828_2 for it. There is a spread of 10 pips. You cannot sell it profitably until it goes above $1.0828_{2.}$ If it went to 1.0823_2 and you thought you were booking a profit of 5 pips, you will end up losing a lot of money.

You will always have to cover the cost of the spread.

The thicker/wider the spread is, the more difficult it would become for a trader to make a profit. As a trader, your focus should be to choose currency pairs with thinner spreads.

Major currency pairs are the best in this regard as they have the thinnest spreads. In major currencies like EUR/USD, USD/JPY, and other such major currency pairs, the usual thickness of the spread is 1-10 pips. However, if you consider minor currencies, the spread would be thicker in comparison. The spread is even wider when it comes to exotic currencies, and it can easily cross 40-50 pips in the exotic currency pairs.

The spreads are also the thinnest during the opening and closing sessions. These are the times when the market observes the highest volume of trading, and that’s why the thickness of the trade goes down automatically. Volume and liquidity are the factors that lead to this change in the costing.

Chapter 6: The Curious Case of Leverage

Leverage is presented as a great financial tool in forex, which can help you earn greater profits. Without a doubt, leverage is an asset that can be used for greater gains but when it comes to beginners, it is mostly a trap.

It is very important that you clearly understand the concept of leverage as it is mostly misunderstood.

New traders generally make the mistake of considering leverage as credit. Leverage is not credit. It is simply the ability offered by the broker to you to trade more. You only have leverage until your trade is making a profit. As soon as you start sinking in the red, the leverage cover gets blown very fast.

You must understand that leverage doesn't provide any cushion to you. It is just not a loan with a term attached to it. It is a tool that can help you sping up higher. The higher you jump, the greater is the risk of crashing heavily.

Let us understand the good and bad of leverage.

Suppose you are a dreamy-eyed trader looking for a business opportunity with just a $100 bill in your pocket. You have a trading market in front of you. You are convinced that if you get a chance to trade in this market, you will be able to make it big. You have a feel of the pulse of the market, and you understand it better. But, a $100 bill can't get you an entry into the market. Even if you buy something, it wouldn't have the potential to earn you anything.

You see a big businessman looking at you. That businessman has a better plan. He has the money, but he doesn't want to risk it. He tells you that he has a say in the market and he can allow you to trade anything 100 times the money in your pocket on the condition that before the day's closing, you'll close the trade.

The unconditional clause is closing the trade before the trading session closes. It would happen irrespective of the fact that you are making a profit or loss in the market.

The businessman takes a cut on all the transactions irrespective of the fact that you gain or you lose. The ultimate power to square off the transaction also lies with the businessman whenever the deal reaches a critical point at which the total loss is near your total investment.

Who do you think stands to lose in this transaction?

The businessman has nothing to lose. Not even a single penny, although it looks like that the greater part of the investment is on the side of the businessman.

- The businessman has a cut in every trade irrespective of the fact that you make a profit or loss in it
- The businessman wields the final authority in squaring off the transactions in which the total loss is reaching the critical point at which the total loss is equal to your investment. This means that the loss, if any, is going to be on your part.
- You will have to square off the transactions before the closing of the trading session. The businessman might not have to invest a single penny in reality as his credibility alone can help you do the transaction for that short term, and he'd be making a profit at your risk.

This is the game of Leverage in forex.

The forex brokers offer the highest leverage in the market to the traders. In forex trading, you can expect to get 1:500 leverage too. This means that the broker can allow you to buy trades over 500 times the value of your investment.

This means if I want to get into a USD/EUR trade using $200. The broker may allow me to buy approximately 5 mini lots of 50,000 units. This can be an opportunity or a fiasco, depending on how you deal with it.

A big problem with leverage money is that people don't understand the gravity of the situation in reality.

The leverage money is not a term credit. It is a tool good till the end of the day or until your trade is lingering above the danger mark.

If you get into a trade and your trade is not in the positive, but it has the potential to get profitable if you can hold it for a little while longer, you won't be able to do that as you are required to square off the trades on the same day. Carrying over forex trade overnight has great risks as the other markets may bring steep price movements.

If your trade starts moving rapidly towards the negative mark or your margin money is not sufficient to cover the cost of the spread, the broker would raise a margin call and if that is not answered by you, the trade will be squared off immediately as the broker wouldn't take the risk of his money.

Therefore, there are several disadvantages of using high leverage in forex.

Leverage is not an entirely bad thing.

If you use leverage judiciously and cautiously, it can help you in getting more profit. It enables you to buy more assets if you keep your bases covered. However, you must also never forget that buying more assets also means that you will be putting more money at risk.

When you use leverage, you must keep your stop losses tight and do not buy very high volumes that cannot cover the cost of your spread comfortably until the entire depth of your stop loss. You must also be prepared to bear the losses to that amount comfortably, and that's why it is advised that your overall stop loss shouldn't be greater than 1%-2% of your total account value.

Most traders know this, but the fear and greed are two very strong emotions that can take over the trading decisions many times.

The government understands this, and that’s why to prevent the interests of the traders in the US, the government has put a maximum capping of 1:50 leverage on the brokers. This means that the brokers cannot give leverage higher than 50 times the total account value of the trader.

In the end, it is important to reiterate that leverage is just a tool. It shouldn’t be considered an asset. It should also be never taken as a term credit. It is just an advantage offered to the trader, which only holds good till the end of the current trading session or the triggering of the margin call, whichever occurs first.

However, if you use it properly, you can gain more profit while keeping your account safe from a complete wipeout.

Chapter 7: Choosing a Broker

A broker is one of the most important parts of forex trading. Broker facilitates the trading of currencies. A broker provides you the trading platform. The broker would also give you leverage to trade. From financial advisory to customer support, there are many things for which a good broker is very important.

Choosing the right broker can be a crucial part of the beginning of your forex trading journey.

Some people believe that brokers are very important and hence they are ready to go great lengths to choose a good broker even if it means paying a heavy price like wider spreads while others just want thinner spreads to lower the cost and for that, they are ready to compromise in other areas. I believe that both these approaches are on their extremist.

There can be no denying the fact that a good broker is a very important part of your trading journey. A broker must be reliable, affordable, user friendly, and supportive. While the cost of the spread should be an important consideration, it should not be the only criterion.

There are some important things that you must look for in a broker:

Trustworthiness and Reliability

One thing you must never forget that unlike equities, the forex market is not run through a central exchange in the country. Hence, your forex broker doesn't have to operate from your country. A broker providing affordable service can even be located in a remote part of the world where the laws of your land may not be enforceable.

Therefore, if you choose an affordable broker who offered you impossibly low spreads and you transferred your money in the brokerage account, there is no surety that the broker would actually let you withdraw that money or wouldn’t just shut shop and vanish. This happens all the time. There are numerous brokers offering fortunes through binary trading, and when the trader makes a big favorable trade, they simply don’t transfer the money. Because they are not registered with the regulatory agencies in your country, nothing much can be done.

In the United States, CFTC and NFA are the regulators. FCA and PRA are the regulators in the UK. Most of the other countries also have their regulators. Before opening an account with any broker, you must ensure that they are registered with the regulators in your country.

Affordability

The cost of the spread will be a big issue in forex trading. You must remember that forex trading is not about gaining big margins but about making more trades with shorter margins, and anything above the spread cost is your take-home profit. Hence you don’t have to worry about other costs like brokerage and commissions, unlike equities and F&O, where there are a lot of costs.

You must find a broker who is offering thinner spreads. This increases your probability of profitable trades. Choosing the right trading sessions can also help you in this as during the active peak sessions, the spreads automatically thin out.

However, finding the right balance between security and affordability should be your primary task.

Seamless Deposit and Withdrawals

This shouldn’t be a big problem with a good broker as they won’t have any problem in allowing deposits and withdrawals. However, the fishy ones would throw a lot of tantrums while you try to withdraw large amounts or may also insist on transferring funds directly into their accounts and keep it parked there. This should serve as a red flag to you as they are more likely to cause future troubles.

Trading Platform

MT4 MetaTrader is one of the most popular trading terminals, and most of the brokers offer their terminals based on it. Although other versions of the platform were also released, it remains the most favored one. The main reason for its popularity is the ease of use, speed, technical help, and the knowledge base.

While choosing the broker, you must get the feel of the trading platform provided by the broker. Most brokers around the globe offer demo accounts so that the customers can experience their terminals. You should make use of the opportunity.

Speed of Execution

This is another important thing to look out for. Forex is a very fast-moving segment, and hence the terminal lag or slow execution of trades can be a big cause of worries.

Your broker must fill out the orders immediately under normal market conditions. Any delay in this can be a cause of loss.

Support

Technical support whenever needed should be immediate and helpful. If your broker tends to give poor technical support, you must not hesitate to change the broker as it can cost you dearly someday.

Chapter 8: Getting Acquainted With Demo Accounts

As a beginner, if there is anything you might be hearing a lot, it would be demo accounts. Almost all brokers in the world would pitch their demo accounts to prospective customers, as this is one of the best marketing tools they have.

The demo account serves two unique purposes:

1. It helps you appreciate the trading terminal the broker is providing
2. It allows you to take the feel of forex trading without risking actual money. You will get virtual money to trade in a real-life scenario and understand if your strategies, trading techniques, and skills are good enough to invest real money.

There is only one problem with that; it is nothing like what you are about to get in reality.

I don't mean to question the broker. It is part of the job of a broker to let you experience the real terminal, and you will get what you experience in the demo version.

The real problem is with the false sense of confidence that develops during demo-trading that causes most of the damage.

You MUST Understand

Real trading is nothing like demo trading.

Once you open a demo trading account, the brokers usually give a $10000-$100,000 in virtual money.

It is a huge sum. No matter how poorly you perform, it is not easy to wipe the account clean. Most people get 80% of their trades in positive. They reap a few pips of profit and exit. The real problem is with the loss-making trades.

A majority of trades in which you are going in red, you start holding them for much longer as you have a big account. This is virtual money, and hence even the loss is not hurting you. This usually becomes a trading habit. People start considering themselves as pro-traders. This is a mistake.

In reality, you are not going to open a $100,000 account.

The profit-making trades are generally cut at lower profit margins. This isn't a very bad thing as a policy. You should develop a habit of keeping your greed in check.

However, people are not able to keep their fear in check. The trades which are making huge losses aren't cut on time as you wait for them to turn green again. You can have this luxury in a demo account as the account is deep. But, when you are trading with real money, this wouldn't be the case. Loss of every penny would be actual loss and you wouldn't have the ability to hold losses for much longer. This leads to a complete wipe-out.

This is a reason very few people stay in the forex for very long.

Having a hard target price and stop loss should be the very first thing you must learn as a trader. There should be no exception to this rule.

If you want to succeed in forex trading, you must operate your demo trading account with only the amount you wish to bring in reality. This will give you a reality check about the success of your strategies and your trading techniques.

The people who can follow this simple rule can keep their necks out of the sand. They are not closing their eyes on reality.

You should also realize that it is not just the market force that's acting in the trading sessions; it is your psychological pressure also on work when your real money is at stake. When you are trading with virtual currency, there is no emotional burden. It is not the same while trading with real money. You are always fearful that the positive trades might go wrong and hence you feel more inclined to cut short those trades early.

You do the opposite with negative trades as you are hoping, wishing, and praying for those trades you turn positive, and we all know how that pans out most of the time.

You must get hold of your emotions and play with strict trading principles.

You shouldn’t treat demo accounts lightly as they would cement your trading strategies for the future and would also form your trading habits. Even demo trading should also be carried out as actual trading if you want to succeed.

Chapter 9: Forces the Drive the Foreign Exchange Market

Till now, we have discussed the basics of the trading terminal and the things you'd need to know to trade. However, for trading, the most important thing is forming a bias. Trading cannot be carried out without forming a bias about a currency.

Many people live in a bubble and think that they'll simply make a guess about the price movement of a currency, and that would click. The whole binary trading concept popularized these days and being presented to beginners as forex trading is also based on that.

Real forex trading doesn't work like that. Certainly, there should be a bias about a certain currency regards to another, but there also needs to be a reason for that bias. Forex is not a betting game or gamble.

The concept of forex trading became so popular because the traders needed to secure their position against future fluctuations in the currency market. This also became a big speculative market, and retail traders also started participating in it for the past two decades.

However, the price movement in the currency market is not dominated or directed by the retail speculators alone. In fact, the impact of the retail trading is very little on the price movement, and the central bank policies, interest rate declarations, demand and supply factors in the import and export segment, etc. are some of the things that determine the actual price.

The major force behind any kind of price movement in the market is the latent had of 'Demand and Supply.'

Demand and supply is the biggest determining factor in the valuation of the currency. When forming the bias, a trader must keep in mind the demand and supply correlation that can influence the price movement.

Poor Demand/High Supply: This is a poor market scenario for anything in the market. The market is driven by the latent forces of demand and supply. When the supply of anything goes up more than it's needed in the market, value depreciation takes place. This is also true for currency.

This is a factor that can influence any currency. If someday all the countries lose trust in an otherwise strong currency, the value of that currency would start going down rapidly. Let us consider the example of Euro. It is a common currency of the European region. Its strength lies in the fact that 19 out of 28 European regions use it as their official currency. However, if the countries in the European region start getting out of the union like the UK, the value of Euro would take a serious hit as its demand would go down. The high demand for the Euro is due to the strong financial structure of the union and robust export and tourism. Without the union or with a weaker union, the things won't remain the same.

In the same way, the demand is also determined by several other factors like economic growth, trade balance, global acceptance, high-interest rates on the currency, etc. Most of these are fundamental factors and hence have a strong long-term impact. However, sudden changes in these areas can also have an impact on demand and affect the price movement.

High Demand/ Poor Supply: This is just the opposite of the scenario discussed above. An increase in demand and poor supply would create scarcity, and hence the value of the current assets would go up and more people would be vying for the limited resources. This is a factor that has kept the demand for the USD up for the past so many decades. There is a high international demand for USD as countries around the world need this internationally desirable currency for strengthening their foreign reserves.

High Demand/ Average Supply: This is again a favorable scenario for business as your product is going to get more suiters. This means there will be positive growth in the pricing. This is an economic condition in which there is a steady supply, but the demand is much higher.

High Supply/ Average Demand: This is an unfavorable condition for any trade as the demand would be slow, but the supply would be more. This would be an unfavorable condition for almost everything.

Countries continuously try to prevent such a situation arise in their economy and currency pricing. An increase in the credit rate, improved fiscal policies, improvement in employment numbers, and retail housing segment are some of the things that can boost the confidence of the common folk on such things.

There were some scenarios to explain the impact of various demand and supply conditions in the market. Demand is not something that can just go up and down like that. Countries go to great lengths in their policy preparation to ensure that the demand remains healthy.

Factors Influencing Demand

GDP- Gross Domestic Production: This is a very important factor that can help in keeping the currency demand up. The robust an economy is, the higher would be its demand in public.

Net exports and government spending are two big things that reflect the robust state of an economy.

If the net exports of a country are high, other countries would regularly need to buy the currency of this country, and hence the value of the currency would go up.

Good GDP also means that the government would have money to do large scale public spending, and that also leads to better economic growth in the long run.

Employment Report: Higher employment numbers of a country are indicative of its good economic health, and that also increases the demand for that currency globally.

Consumer Spending: The higher the consumer spending, the greater would be the demand for the currency. It reflects that people are not hesitant about spending money. This also gives a positive boost to valuation.

Durable Goods Order: This is an indicator of the health of the manufacturing sector in a country and explains the current order books.

The Things That Lead to High Supply

A high supply of currency can be deliberate, as well as uncontrolled. Several export-based countries have it in their best interest to keep the supply of currency low. Countries like Japan don’t let their currency price go above a certain price as that can make the goods costlier for the importers in other countries buying goods from Japan. This will in-turn affect the businesses at home.

Sometimes, this high supply is out of control, and in that case, the economies can even fail as their currency is in high supply, but there are no takers.

Countries through their central banks manage the supply of the currency in the following ways:

1. **Adjusting the interest rates: This is one of the most popular ways companies push people to invest or divest in a currency. If the interest rates given by the banks are high, people would like to keep their money parked, and that would slow the supply and circulation of money. If the central bank lowers the interest rates, people would look for better currencies with higher interest rates. This would increase the supply in the international market and people would try to exchange it with better interest-paying currencies.**
2. **Printing and Releasing More Money: Injection of more money in the economy can also increase the supply and lower the demand.**

Chapter 10: Factors Determining the Currency Pricing in the Forex Market

The currency prices in the forex market are not determined indiscriminately. The demand and supply factors internationally depend on some key factors:

Big Key Central Bank Announcements: The central banks in various countries maintain the biggest foreign cash reserves. They also have a direct hold on the interest rates and other fiscal factors. Their announcements can lead to the injection of home currency or foreign currency in the open market that can have an impact on the overall pricing.

An interest rate announcement is the biggest news that can affect the pricing of a currency. If a country is giving a higher rate of interest on its currency, people would tend to buy that currency. This even attracts foreign investors who bring foreign currency to the country. The more a currency gets traded in exchange for foreign currency, the higher its price would go up. If a central bank would want to lower the pricing of the currency, it can lower the interest rates and the investors would go looking for high interest-paying currencies for a swap. This would lead to currency depreciation.

Cash Injection in the Economy: This is an intervention by the government that can influence the demand and supply balance in the economy. This is an intentional step to keep the valuation of currency in check. This is an intervention carried out from the top and usually remains a low key affair. The impact of cash inject is generally not very quick. The main purpose of this step is not to devaluate the currency but to keep its valuation in check.

Inflation: High inflation in a country is a negative influence on the value of that currency. Inflation is an indicator of negative growth in an economy, and hence it sends bad signals to foreign investors and discourages them from showing interest.

Hedging: Large scale hedging carried out by exporters and importers can also influence the valuation of the currency. They need to do this to ensure that their trades remain unaffected by the price variation in the international market. They simply secure their position by buying options contracts in futures.

Fear and Greed: The retail traders are the smaller portion of this speculative game, but they can also turn the tides. The market is governed by fear and greed. Mass hysteria is a phenomenon that best describes the financial market. When there is a wholesale buying or selling of any currency, it brings the attention of the whole world towards it and brings the world to a frenzy.

The collapse of the Bank of England in 1992 is a stark example of the fact that mass hysteria created by fear and greed can wreak havoc in the market when even there is no real emergency.

George Soros accumulated the pound and kept hedging against it. He took advantage of a piece of news that wasn't even particularly scary and painted it out of context to create a market frenzy. Once an uncertain environment was created, he started dumping billions of pounds in the market, causing it to crash.

This was not the first instance of the influence of fear and greed, and it wouldn't even be the last.

Public Debt: Government expenditure on big social welfare projects is not seen favorably in the forex market as it sends a message that the public debt will increase. There is no doubt that these steps help the economies in the long run, but they do have a negative impact in the short-term.

News Announcement: Big international news events that can influence the policies, trade balance, and other such issues of a nation can also influence the currency pricing. Wars, pandemics, and natural disasters, social or political unrest, violent protests, discord in world trade bodies are some of the key things that can have an influence. These news pieces come all of a sudden, and hence they can have a jolting effect and cause a lot of volatility.

Chapter 11: Analytical Approaches

The analysis is the basis for speculation. More than $5.4 trillion of trade is carried out in currency every day, and that can't happen simply based on assumptions. You must understand that world-class institutions are engaged in forex trading and they are not there merely for betting.

There are two major streams of analysis that interest people:

1. Fundamental Analysis
2. Technical Analysis

Fundamental Analysis

Fundamental analysis strives to look at the macro aspects of an economy and figure out the strength in the economy and its viability in the future.

It is like reading the financial statements of a company and determining whether it has the potential to give good returns in the future or not.

The major outlook in fundamental analysis is medium to long-term, and it is not used for determining the price movement in the short term.

Fundamental analysis is a tool most suitable for importers and exporters, hedge fund managers, and professional investors who come with a long-term outlook and would probably roll over the stakes.

Fundamental analysis usually involves finding the intrinsic value in the currency. It can give you an idea of the behavior of the currency in the long-term concerning other currencies.

There are some pros and cons of Fundamental Analysis in forex:

Pros:

Better Understanding of Economic Understanding: This is one of the key advantages of doing fundamental analysis. Some currencies are highly volatile. Most traders want to trade in such currencies as they give great price movements. However, the very nature of such currencies can be intimidating. Uncertainties keep the trader frightened. Fundamental analysis of such currencies can give you a better understanding of the economy of the country and the inherent strength derived by the currency. Analyzing those points can help in forming better strategies.

Comparative Analysis: Fundamental analysis can prove to be a great tool to identify the relative strength in an economy or currency. It gives you specific data points that can help you in determining the long-term performance scope of that currency.

Cons:

Unsuitable for determining price points: This is the biggest shortcoming of fundamental analysis that it cannot give you any specific information about the specific entry and exit point into a trade. The view is generally about the macro factors in an economy, and hence highlighting such things may not be possible.

Determining Factors of Fundamental Analysis

GDP: Gross domestic product is an accurate indicator of the performance of the economy. It reflects the net exports and production abilities.

Trade Balance Data: This is another very important indicator. It reflects the difference between the imports and exports of a nation. The higher the trade surplus a country has, the greater would be its foreign reserves and also the demand for its currency in the international market.

Non-farm Payrolls: Non-farm payrolls indicate the rate of economic growth and inflation. Steady expansion in the non-farm payrolls is indicative of positive growth in the economy.

Interest Rate Change: An increase in the interest rates would attract foreign traders towards the economy while an interest rate cut will lead to value depreciation.

Retail Sales Data: This is another important indicator that shows the liquidity in the economy and earnings of the businesses in the nation.

Housing Data: A positive growth in the housing data always signals a strong economy, while negative housing data reflect weak market sentiments.

Technical Analysis

This is the most popular analysis method in the forex segment. Most forex traders use this method for analyzing critical price points and the trends in the currencies.

You may hear people going ga-ga over technical analysis, but it is important to understand that fundamental analysis is not without its merits here.

Technical analysis is a purely speculative science. You use various models and historical charts to assess the future movements of the currencies. This method is purely based on numbers and doesn't take into consideration other macro or micro-events.

Technical analysis definitely gives you the advantage of understanding the mathematical models of the movement of a currency in a specific direction. However, without a sound understanding and consideration of fundamental analysis, it is like moving towards enemy location without cover fire. You may have an idea of a specific location of the enemy but no idea about the other traps laid for you.

There is no certain science for speculation. Our assumptions are only based on previous models that have worked in most circumstances and have even failed in some. There is no surety about a specific model and that's why it is always the best to use as much knowledge as possible.

Technical Analysis- The Best Way to Understand the Price Pattern

Trading is all about speculating the price patterns. As a trader, your prime objective is to identify the correct entry and exit points. You ought to understand the way the currency is going to behave in a specific situation.

Most people believe that markets can start behaving erratically, and hence it is impossible to predict things correctly. This is not a factual statement. There are modals to prove that even chaos has a pattern. It is correct that in an emergency, people will panic, but people panicking in an emergency is also a pattern.

Technical analysis is the science of identifying specific patterns for such situations. It takes the help of historical modals, price patterns, moving averages, charts, candlesticks, trend lines, Fibonacci levels, etc. to do that.

In the end, everything comes down to usability. Fundamental analysis is proper science. However, there is a drawback to it. You can't apply fundamental analysis for finding price points. It is not very helpful in live trading. The analysis is not very quick to make. This is where technical analysis comes to the rescue of a trader.

Technical analysis is a science you can apply on the spot. The charts, patterns, indicators, etc. used in technical analysis help you in real-time decision making. They provide you the reference to broaden your understanding of the situation.

Most people think that panic reactions can be random, but that's also a misconception. Scheming, planning, and plotting can lead to convoluted plans that may go off any pattern but panic reactions and mass hysterias generally lead to identifiable patterns.

The reaction time in the market is very short, and that's why it follows patterns to a great extent and technical analysis helps you in identifying them as accurately as possible.

Three major tools provide the greatest help in doing on the spot technical analysis of trends.

1. Candlesticks
2. Charts
3. Indicators

Candlesticks

For carrying out correct technical analysis, you must understand a basic thing, and that's the dynamic nature of the market. The market is always moving very fast. Every minute is precious for understanding the next move. Therefore, it is important that you get all the relevant data fast, accurately, and in an easy to understand manner. This is where the candlestick patterns help you a lot.

The use of candlesticks began centuries ago. They helped local traders in understanding the basic price points easily. Over the centuries, the use of candlestick patterns has become very sophisticated. Traders use candlesticks for understanding price points even for very small time frames.

The best thing about candlestick patterns is that they explain 4 things very clearly:

1. Open- The opening price of the asset at the given time frame.
2. Close- The closing price of the asset at the given time frame.
3. High- The peak made by the asset within a given time frame
4. Low- The lows made by the asset within a given time frame.

Powered with this vital information, you can easily make your further deductions. This is not to say that you can't get this information through other means, candlestick patterns simply make the relay of this information very easy and quick. Additionally, you can also get a quick understanding of the volume of the transactions and also the bearish or bullish trend.

Charts

Charts offer a great tool to understand the trends within a given time-frame. Here, everything we are talking about will always be restricted to a certain time-frame as technical analysis is about the behavior of an asset at that point of time in certain situations.

Charts are full of vital information. They help you in developing an informed bias about the current trends. You can understand the way the trends are rising or falling. Trend analysis is one of the most crucial analysis. If you have a correct bias, then the battle is already half won as the way from here gets easy.

Charts can relay very important information to a trader. They can show you the prevailing trends. They can help you in understanding the support and resistance levels and the way the asset has been behaving around these levels in the past. They also help you in understanding the way it would perform if it can break those levels.

The markets move, and they can only do three things:

1. Move Up
2. Go Down
3. Go Sideways

Charts help you in determining the kind of move the market is going to show, and based on that you can form a better strategy to reap the highest amount of profit.

Every type of movement in the market is an opportunity for a trader. If the market is on an upward trend, the trader can benefit from the boom. However, a trader must know that even the most bullish market cannot keep rising. There will be corrections and profit bookings. These points will give better entry points once again. Similarly, the downtrends also provide an opportunity to make a profit from the downtrend. A clear understanding of the support and resistance levels also helps the traders in assessing the points at which the markets would become range-bound.

In charts, traders can use various lines to determine these levels. The common tools used within the charts are:

1. **Trend Lines: As the name suggests, these lines help in assessing the trends. They help you in determining the critical reference points from which a new trend may emerge. Once you have a clear understanding of the current trend, you can prepare better trading strategies.**
2. **Horizontal Lines: These are very important for understanding the support and resistance levels within the prevailing trends. These levels are crucial as any breach of these levels would lead to the formation of a new trend. Traders must keep a good watch of these levels all the time.**
3. **Fibonacci Levels: The market moves unpredictably, or so it looks to a person who doesn't have a clear understanding of the market behavior. You must understand that even a highly bullish market cannot keep going up without having corrections and profit bookings. Even in the deep bullish trends, you will notice peaks and valleys. There are certain levels on which there will be rebounds. They have a mathematical pattern. These are called Fibonacci levels. A clear understanding of the Fibonacci levels will give you entry and exit points in the market.**

A trader has two big questions in mind:

1. Correct Entry and Exit Levels
2. Correct Stop Loss and Target Price

These things can be understood in a much better light with the help of Fibonacci levels and other tools in the charts.

Indicators

Indicators are the tools that can help you in assessing the changing tide in the market. Candlesticks help you in reading the levels within a time frame. Charts help you in assessing the trend within those levels. However, a market moving in one direction cannot maintain that movement for an indefinite period. There will be a time when it would correct itself. Indicators help you in identifying those points.

There are four important things that you can assess through indicators:

1. **Volatility: It is the most feared but also the most desirable trait. A sideways moving market is of no use for a trader as it doesn't offer an opportunity to invest or book profit. A trader is very different from an investor. The trader needs volatility in the market to make a profit. However, if the markets are too volatile or choppy in the other direction, that can spill a lot of blood. Volatility indicators can help the traders in assessing the price fluctuations correctly. The trader can determine the volatility pattern and correctly assess the upward and downward volatility possible to ascertain the risk.**

Popular volatility indicators are:

1. Chandelier Exit
2. Standard Deviation
3. Bollinger Bands
4. Average True Range

2. **Volume: Volume is very important in the market. If the interest shown in the market about an asset is low, it would become unfit for trading. High volume in any asset is a piece of good news for a trader. Low volume will not only mean wider spreads but also slower transactions. Traders must avoid such traders if there is no other specific reason to carry them out.**

Popular volume indicators are:

1. Volume Oscillator (PVO)
2. On Balance Volume OBV

3. Money Flow Index (MFI)
4. Acceleration Bands
5. Accumulation Distribution
6. Volume Weighted Average Price (VWAP)

3. **Momentum: These indicators help determine the actual strength or weakness in the system. They would also tell if the market is going to shoot up rapidly or will maintain a somber pace. A good understanding of momentum is crucial as various points in the trend explain whether the market or a specific asset is about to lose steam or make a streak. The momentum is always the strongest at the beginning of a trend and weakest at its end. Thus, a correct determination of the speed can help you address many issues at the same time.**

Popular Momentum Indicators are:

1. Aroon Oscillator
2. Stochastic Oscillator
3. Intraday Movement index
4. Relative Strength Index
5. Accumulative Swing Index
6. Random Walk Index
7. Gravity
8. Williams %R

4. **Trend: In the end, it all comes to correct trend analysis. Trend analysis is mostly based on various models. You use historical data points like moving averages, parabolic indexes, and other such tools to assess whether the market is going to maintain an upward, downward, or sideways movement or it is going to break the trend any soon. Trend analysis is a pure mathematical projection based on numbers, and no part of it is speculation. Several factors must be kept in mind while determining a trend and that's what makes trend indicators so important.**

Popular trend indicators are:

1. Moving Average
2. Advance-Decline Line
3. Average Directional Index
4. Moving Average Convergence/Divergence
5. Parabolic SAR

The Reason, a Trader, Must Lean on Technical Analysis

Accurate Potential Analysis: Every hunt is not worth a try. When a lion spots a herd, it doesn't attack everyone. It finds the weakest one that can be captured doing the least amount of work. A lion can very well hunt the strongest deer in the herd. However, lions don't do that. The logic is simple, it'll get the same amount of food but with greater risk and a lot more hard work.

The reason a trader must lean on technical analysis is that it would help you find the potential targets. The assets that have clear streaks. The trades that are going to make a move very soon can be identified with the help of technical analysis, and that makes work so easy.

Correct Orientation: A trader cannot afford to be directionally challenged. If the trend is upwards and you are betting all your money on the market being bearish, you are either a visionary or up for a career change. Technical analysis helps a trader in understanding the direction an asset is going to take so that strategies can be prepared for that.

Quick Decision-Making Ability: A trader can't afford to stand nonplussed in the middle of a trade. The decision making should be quick. However, it is not that easy when there is real money at stake. You need something to rely upon. The technical analysis comes to the rescue of traders in such circumstances as it helps them understand their position and the outcome of their decisions better. The best thing is that everything is represented through easy to understand lines, charts, and candlesticks, and hence all the information is easy to grab and process.

Accurate Ins and Outs: Technical analysis also helps in determining the correct price points to enter into a trade and the levels to take an exit. Forex trading is like playing basketball; you can't hold the ball for very long. The real game is to keep the ball rolling.

Finding the Best Fit

Some people can’t pick the best approach for themselves. They keep struggling with the perineal question of the best approach for success. Then, the experts are there to add to the conundrum.

The analysis is a very important tool. Technical or fundamental, both help you in broadening your understanding of an asset and improving your trading abilities.

However, it should be understood without a doubt that both have their use in different settings.

You must have fundamental knowledge about the currencies you are dealing with. You must understand the long-term factors that can have an impact on that currency in a big way. It is a macro understanding that helps you in remaining better prepared.

However, the technical analysis must be the base of your trading. There should be no confusion in that.

You don’t need to worry about smaller details on most of the things usually get covered as and when they happen.

Trading is a task of tough decision-making where you are devoid of emotions like fear and greed. You need to make firm decisions based on your understanding of the facts. Fear and greed can make you cut short profitable trades and keep the losing ones.

Too much focus on the fundamentals can also hamper your trading decisions. Even an asset from one of the strongest economies can tank in a bearish trend. It does not need to be the reflection of the performance of the economy itself. The poor performance can be due to overselling in the market, development of some negative sentiment, or some big news event.

Therefore, a trader must focus on the technical while trading; however, it is also advisable for a trader to remain informed about the fundamentals.

Chapter 12: The Mechanics of Trading

Most people believe that trading is a simple task of buying and selling assets. They don't understand the mechanics that go behind the process. A trader can't simply choose to buy something one day to sell it at a profit later on. There are so many factors to consider. There needs to be a plan. A trader needs to have a plan and a backup plan.

A correct Trading Strategy is crucial for any trader. Without a trading strategy, there is no way that a trader can make consistent profits. You must understand that forex trading is a speculative business. You are trying to make the most informed decisions based on the limited information you have. However, 'limited information' should be the guiding word here, and that's why you can get blindsided by the market anytime.

Trading with a strategy can help a trader avoid losses and perform better at a consistent rate.

There can be no denying the fact that forex trading has greater risks than other segments, especially when you are trading on leverage. You also need to roll quickly or else you may have to bear losses. Finding correct trades after correct trades consistently can prove to be challenging. Having a well-backtested trading strategy can help you in doing so.

What Makes a Trading Strategy Work?

A trading strategy must suit the personality of a trader. For instance, if you are a person who likes to keep the risks low, you must avoid trading during choppy times of high volatility and must focus only on stable trades.

If you are a risk-taker, you can go for riskier trades in the moments of high volatility.

Trading when the market is within a range can be good for risk-averse traders who like to keep the risks contained; however, the moments of breakout can give better opportunities to daredevils. Some traders also like to get the best of both worlds by diversifying their portfolio.

Beginners must keep in mind that trading is not betting. You simply can't start betting your money on various currencies one day and declare that you have arrived.

You must have a trading strategy in place.

- It would require an understanding of the assets you are going to invest in.
- The amount of investment you are going to put.
- The percentage of your total account that would be.
- The measure of risk you are about to attribute to that.
- Your target price for booking profit and also your stop loss.
- You must have a diversification strategy too.
- You can’t expect to do all your trading in just one asset.
- The specific trading style you would be using to achieve these objectives

The basic understanding of the trading factors can be developed through a technical analysis of the assets. It can give you a better understanding of the risk and profit potential in the trades. As far as the trading technique is concerned, several trading styles can be employed for better results in specific situations.

Trading strategies can be of two types:

- Trading Style Based Strategies
- Technical Analysis Based Strategies

Traders use them as per their trading preferences.

In the following chapter, we will be discussing various trading styles in detail.

Chapter 13: Forex Trading Styles

Forex is a very big segment. It has a scope of all kinds of people. While a small retail trader may not feel left out in forex and will find regular engagement, a corporation or a big hedge fund management will also feel at home in this segment. Forex is open and suitable for big and small alike.

However, this doesn't mean that everyone would trade in the same manner. There will be people who might like to play the patient game and hold the currency for long and wait for the right opportunity. While there may also be traders who might make hundreds of trades within one trading day. They are not looking for big margins. They are just happy with a profit of a few pips as they can make those pips several times over in a trading day.

From swing traders to day traders, this is a segment that has a scope for all kinds of traders. We will now discuss these trading styles so that you can find the best pick suiting your style and temperament.

Day Trading: This is probably the most popular term that you might have heard as a novice. Either it is forex or equities, day trading never loses its charm for the beginners.

It is a trading style in which you pick one or two trades for the day and close them over before the end of the trading session. The key is to never keep the assets ever as that can lead to major price changes.

In this style of trading, the biggest task is understanding the trend and forming a bias. This might look like a regular job for a trader, but it is more than that. A day trader opens positions for a short-term lasting not longer than that day's closing time. This means that the position will have to be squared off irrespective of the fact that the trade was positive or not. It is very crucial in forex, unlike stocks. Although even in stocks taking deliveries of the stocks increases, the cost and your money can get stuck but in forex, the risks are higher. First, if you have done trading using leverage, you will need to square off the trade. If you have the balance to carry the trade overnight, the risk becomes huge as the forex market never sleeps. In some parts of the world, the forex market is always up. Any big news event anywhere else can also affect currency pricing globally and hence your trade can become very risky.

This means that a day trader would need to be very thorough. Although day traders don't do too many trades, they have to be very picky. They need to ensure that the speculation is in the right direction so they can come out of the trade by the end of the day anyhow. It is also a full-time task and can't be done as a hobby.

Some Common Intraday Strategies that Intraday Traders Follow are:

- Breakout Trading
- Trend Trading
- Counter-Trend Trading

Scalping: This is one of the most popular trading styles followed by retail traders in the forex. This trading style involves making a high number of trades without keeping a large margin. The focus of the trader must be to execute a high number of trades and increase the overall volume in the process. Even if the profit margin is not very high in the process, it leads to a handsome profit as the volume is high.

This type of trading is possible only in forex as the trader doesn't have to worry about commissions, brokerages, and other charges. As long as you are covering the spread, you will be making good progress.

A forex trader simply needs to follow the trend. If the market is on an uptrend, the trader needs to have a positive bias and if the market is experiencing a downtrend, then the bias should be negative.

The trick in scalping is to keep the target price and stop-loss as close as possible to the current price and look for trades with high volumes as the spread is generally very thin in them. You get into a trade, and as soon as the trade makes an up move, you book your profit and start looking for other trades.

Most of the process is automatic as the stop loss and target price is already filled. These trades have very tight profit and stop-loss margins, and hence there is no need to keep monitoring them. Once you have set a trade, you can immediately start looking for the next possible trade.

Such trades get executed very fast as the movement of a few pips in forex is very rapid.

A scalper can execute dozens of dozens of trades within a trading session. The closing and opening sessions are the best as these are the most active ones. If you can catch the time when the European session opens up, it would be great as there is a lot of activity and heavy trading in that session as well. The major thing is to swing by the tide and keep the margins low. A scalper only tries to take the benefit of volume and not margin.

Swing Trading: This style of trading is best for traders who can only devote a few hours of their day for trading but want to get their feet wet in the currency market.

This type of trading is best to deal with a range-bound market. A range-bound market is not very choppy and makes several moves up and down within that range. There are small peaks and valleys within the support and resistance levels. Once you understand the support and resistance levels, every time the asset makes an up move from the support level, you can enter the trade and get out near the support levels. You can again enter once the asset starts its downward journey from the resistance levels.

This style of trading gives a chance to earn limited rewards with very limited risk. It also doesn't require a great deal of your time, as the market is usually stable during a rangebound period.

Unlike day trading, you don't need to spend hours and hours reading the charts and following the indicators. As long as the asset respects the support and resistance levels, you'll be good to go.

A quick assessment of the market position every day for a few hours can help you in staying abreast of the market.

Due to the range-bound nature of the market, you can keep your target price within the expected range and the stop loss tight to the support and resistance levels.

It is also a very good style of trading in a steady market when the assets are not making a significant move.

Chapter 14: Analysis Based Trading Strategies

As we have already discussed, technical analysis is at the core of forex trading. The main advantage of technical analysis is that it provides you reference points for trading. You get the important price points and trends that can be very helpful in executing successful trades.

Trend Trading Strategy: Technical analysis is the best in predicting trends. When there is pressure on the market, it becomes evident in so many ways. The market can be ruthless, and it doesn’t mince words in expressing its displeasure about things. This becomes clear by the movement of the market leaders and technical analysis helps you in taking a cue from that.

Through technical analysis, you will be able to predict the prevailing trend is a clear manner. There are only three kinds of trends a market can have:

1. Uptrend
2. Downtrend
3. Sideways

Looking at the trend, you can prepare your trading strategy accordingly. When the markets are choppy, it is advisable to remain risk-averse and you can open your hand a little more when the markets are rangebound. Uptrends and downtrends in the market allow you to go big as there is an opportunity to form a consistent bias.

Some helpful tools are:

- Relative strength index
- Moving average convergence divergence
- MACD
- Historical chart patterns
- 200-day moving averages
- Fibonacci retracement

- Candlestick price charts

Range Trading: This trading style is good for range bound markets as you have clear target levels in front of you. The markets are slow and respectful, and hence your risk levels are also low. This is a fact that during such periods markets don’t make any significant moves, yet they give the trader a chance to execute consistent trades.

The biggest task in a rangebound market is to find accurate support and resistance levels that are not getting breached very often. The markets during such periods wouldn’t make a drastic move, but this also means that you can trade in volume and hence your earning ratio can remain consistent.

Some helpful tools are:

- Fibonacci
- Moving Averages
- Candlestick Patterns

Multiple Time-Frame Analysis: This strategy is based on the principle that the market doesn’t have straight peaks and valleys. While rising, it will give several opportunities to enter and exit. The same occurs when the market is on the downward slope. This trading strategy helps in exploiting such events.

It requires extensive analysis of the historical performance of the asset over a while in the long-term and then its comparison over short-term performance. It is a complex strategy but helps experienced traders in gaining from the market nevertheless.

Chapter 15: Risk Management

Risk is an integral part of life. Anything you do will involve risk. Breathing carries a risk of infection. Eating carries a risk of food poisoning. Going out has the risk of accidents. No avenue in life is free of risk. Therefore, there is no reason that you must fear risk. However, some people stretch this part too far.

Making money in the market always carries risks. When you deposit your money in the bank even that carries a risk of bank filing for bankruptcy. This is not something without precedent as something very similar has happened in the past. However, we still deposit our money in the bank as we think that it is comparatively less risky. We all also know that Uncle Sam is watching over us and would regulate the bank in times of distress.

That's a risk assessment we all do in our minds knowingly or unknowingly.

However, when it comes to speculative trading in forex or even in Cash and F&O segment, people come with great expectations and no risk assessment. You must understand that the market is full of risk. Several things can go wrong and will go wrong. You must realize that when you gain money in the market, someone else may have lost money that day to you. You are literally making a trade, and that's why it is called trading. You can remain on a winning streak for a few days straight but someday that streak would come to an end and you would lose. You must prepare even for that eventuality.

Every trader is at risk of losing money on the market every day of trading. No matter how good you were, no matter how bright the markets were that morning, no matter what you read in the horoscopes that day, the heavens can break loose any day without warning and you must be prepared for that.

On such a day, if you don't have a diversified portfolio, if you don't have strict stop losses, or if you have used leverage carelessly, all your investment capital can get wiped out in an instant, and you may even go in debt. I don't want to say this in any uncertain terms because most people like to ignore subtle warnings.

Risk management is a very important part of trading and financial planning. You must have an exact plan to get out of such circumstances.

There are 5 major risks that a trader faces every day of trading:

Liquidity Risk: Traders dealing in minor or exotic currencies face this risk all the time as due to low liquidity, the trades may not get executed on time, and they may get stuck with the trade for much longer than planned. Carrying over forex overnight can be very risky especially if you are dealing in an exotic currency. A trader must choose the currency pairs wisely.

Market Risk: The markets can start behaving erratically at times. Mass hysteria, panic, big news event, the pressure of some big event, natural disaster, or fear are some of the things that can put sudden and extreme pressure on the market, making it behave unnaturally. This can prove to be disastrous for even the best-placed trades and hence every trader must always remain prepared for such eventualities. You must never put all your money at risk at the same time.

Leverage Risk: Use of very high leverage is a risk that people, especially in forex, face a lot. During the positive trend, the leverage looks like a boon but when the markets go against you, leverage can become a curse. Using too much leverage in risky trades is something traders must avoid at all times. Using high leverage when the markets are choppy is also particularly risky and traders must avoid that.

Risk of Ruin: A margin call is something that a trader doesn’t want, but it can arise every time you use more leverage than necessary. If your trades are going in loss and there is not enough money in your account to cover the loss of the losses, the broker will give you a margin call; if you can’t supplement your account, the broker will square off all the positions irrespective of the losses that you may incur. This will also mean that not only all the money in your account may get wiped off but you may even be liable to pay more to the broker to cover the losses.

Interest Rate Risk: The interest rate announcements made by the central banks have a big impact on the currency market as it influences the demand. These announcements can be sudden and may go against your bias in trade and hence may lead to a loss. A trader must remain prepared.

The fact of the matter is that there is a risk all around you. This shouldn’t push you to inactivity. However, you should also not get over relaxed at any time. Proper planning, risk management, and a good strategy can help you in sailing through the forex market easily or any market for that matter.

You must manage your risk properly and take steps to ensure that your investment is safe.

Effective Ways to Manage Your Risk

Use Leverage Cautiously: I can keep repeating this again and again as nothing causes more destruction in the currency market than callous use of leverage. Leverage is a tool that you must use when there is a proper opportunity. It is not your to use whenever you feel like. You must never consider leverage as your own money, a mistake most traders make just before fading into oblivion.

Use Hard Stop Losses: There is no such thing as on the spot decision making. When the time comes, you'll be busy praying for the asset to move up. It doesn't work like that. By the time you can recover, you might have lost your whole account. Never trade without putting a hard stop loss and never change it between a trade.

Take Profit While It is Still There to Take: Greed is a guiding force in the market, and when the markets are moving favorably, we all want it to keep moving up. However, we all know that it never lasts. Your target price should be fixed. Once you reach that target price, take profit, and start looking for another opportunity to enter the market. Don't hang on to a thin thread for too long.

Maintain a Diversified Portfolio: There is simple learning, don't keep all your eggs in the same basket. You wouldn't like all of them breaking at the same time.

Don't Enter Without A Strategy: Trading is not a family discussion. You can't enter into it without choosing sides or the course of action you are going to take. You must have a proper strategy for every trade beforehand, and that is beyond the scope of discussion.

Chapter 16: Understanding MT4 Trading Platform

The MT4 terminal or the Meta Trader 4 is the best and most popular trading platform used all over the globe. It is almost 2 decades old now, and yet it is the first choice of traders. In fact, the later versions of this terminal were never able to gain such recognition ever. It is the ease of use and the ability to use all the required indicators and tools that makes this terminal so popular.

Easy to Understand: MT4 is very easy to understand platform with very few complexities. There is no doubt that there are too many things even in this terminal that would take years to perfect, but if you want to gain a working knowledge of the terminal, that can e acquired very quickly.

Highly Customizable: This is yet another thing that makes MT4 so desirable. It doesn’t force you to use things you don’t want to. It is like a blank template on which you can have all the tools you want to place. This means that if you are new, you can remove complex items and start adding them as you keep learning new things. It helps you in learning at your own pace without posing any technical challenges in front of you.

Lots of Tools: No matter what strategy you want to follow or what kind of tools you need, MT4 has it all. You can place all the tools, indicators, charts, trend lines, etc. as per your requirement. It makes trading so easy. For a trader, indicators are not only knowledgebase tools, but they are also reassuring and confidence boosters. MT4 ensures that you don’t miss out on that.

You’d need to install MT4 on your computer or using it. The process is simple and wouldn’t pose any difficulty.

First step: Download and install MT4.exe

You can download it from the internet easily. It is provided by most trading brokers.

Run the program and follow the instructions.

Second Step: Fill in your account details.

You must remember that it will ask for financial details when you open a trading account. If you are downloading MT4 only for demo trading, then you won't be asked those details.

Third Step: Get Login and Password

These details will be provided by your broker. When you install the MT4 you'll get a screen similar to the one given below:

When you log in for the first time, you may see a no connection signal. It means that your MT4 account login is yet not successful.

Every broker has a different process for initiating an account. Call your broker and activate your account to start the work.

Once you have logged in. The terminal can look intimidating as there are several tabs with numerous dropdowns. You don't need to worry about them. Just try to keep your terminal as simple as possible. Clear out the indicators that are on the screen and start by placing one chart of the currency pair you want to assess.

On your right side of the screen, there is a market watch tab. It carries popular currency pairs. You can easily add or remove currencies from this list. There will be many currencies there as a preset.

You wouldn't need those many currency pairs, and hence you can hide most of them. For a beginner, trading in the major currency pairs is the most advisable.

Setting Market Execution Orders

To place an order:

- Click on the new order
- Select the new currency pairs
- You can also choose the currency pairs from the list present on the screen
- Select market execution in the order type
- Now you will have to enter volume.
- You need to be very careful here.
- A standard lot size is 100,000 units. A mini lot of 10,000 and a micro lot of 1000 units. They are represented as 1, 0.1, and 0.01, respectively. You need to place the volume carefully.
- If you need to buy 8,000 units, you will need to enter .08 in the volume field.
- In the end, you will have to determine whether you want to sell or buy the currency pair. It means you will have to be specific whether you expect the currency price to go up or down. Select sell or buy as per your bias.
- At this point, you may not be able to set Stop Loss or Target price as the trades are moving very fast.
- You can place your stop loss once you have placed the order by clicking on Modify.

Way to Modify a Trade

To modify your trade, click on Trade tab
Here, you will be able to put your stop loss and profit target.

- Select the trade you want to modify
- Press right-click and select Delete or Modify Order option from the drop-down menu
- Now fill-in the stop loss and target price in the given places
- Once you are done, you can press Modify
- You will be asked to 'Confirm' again

Way to Close a Trade

- If you want to close a trade, right-click on the trade
- You will get a ‘close order’ option in the drop-down list
- For closing the entire position click on the yellow button below the buy or sell option
- Press close, and you will be able to see your balance.

Conclusion

Thank you for making it through to the end of this book, let's hope it was informative and able to provide you with all of the tools you need to achieve your goals whatever they may be.

This book was an attempt to explain the enigmatic world of forex trading. It is a field that raises the curiosity of many, but people are fearful of entering it as there are too many things to learn.

Through this book, I have tried to explain the basics of forex trading in as simple words as possible.

Forex trading is a world with great possibilities, but it also carries a lot of risks. Improper use of leverage and choppy markets can lead to huge losses. Data shows that most of the people who enter the forex market don't even survive till the next year and only 10% of people continue trading forex even after 5 years of joining it.

In the end, most people who fail to succeed in forex trading start blaming the market and never try to understand their mistakes.

This book is an attempt to explain the complexities of the forex market and how it functions. It has also explained how you can not only survive in the market but make money from it.Wrong trading psychology, poor risk management, and weak trading strategies are largely responsible for this. Through this book, I have tried to help you in understanding all those concepts so that you can make a lot of money in the forex market. This book has solutions presented in a simple and easy to understand way. It has given you are the key ideas that are needed to make them work for you effectively.I hope that you will be able to gain full advantage of the information provided by this book. Finally, if you found this book useful in any way, a review on Amazon is always appreciated!