Mastering Day Trading With The 8-Step Plan

How to get through the day trading learning curve without going broke first!

Another ProMarket Systems Stock Market Profit Guide

www.swing-trading-club.com
About the Author

Jeffrey Brewer, of San Diego California has been profiting by trading stocks online for more than a decade using numerous unique and entirely new trading techniques which he developed for every trading timeframe.

Introduction

Welcome to the exciting world of Day Trading. There are numerous methods of making money in the stock market, long term investing, shorter term Swing Trading, but nothing compares to the high octane world of Day Trading. In Day Trading, the entire trading life-cycle is completed within a 7 hour period and many times you are forced to make split-second decisions.

If you are the classic investor you many have to wait months and sometimes years before you reach your profit objectives. The Swing trading timeframe is compressed to days and weeks but you still must develop a great amount of patience and learn how to deal with choppy and confusing markets.

Ah... but with Day Trading, you know the score at the end of each and every trading day. You either win, lose or draw. At the end of each week you know if the campaign has been a success or a failure. Welcome to the high speed world of Day Trading!

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Basic Concepts For Day Traders

Let's begin our discussion of day trading by reviewing some basic concepts. There 3 important rules that all day traders must embrace and keep in the forefront of their minds every day.

1.) Be Flat At The End Of The Day

This means that you liquidate all trading positions before the close. In my own Day Trading there are times that I will hold small portions of a successful day trade to take advantage of a high probability move over several days when a good swing trade setup warrants it. But for the most part I plan on being flat the majority of the time at market close.

2.) Finish Each Every Day With A Profit

Your goal as a day trader is to finish each day with a profit no matter how small. If you are trading a 40k account and you end the trading session with a $10 gain, you have met your objective! Finishing the day with a profit no matter how small guarantees one thing, that you did not take a loss.

3.) Keep All Losses Small

Use strict stops and control all of your trades. At no time should you allow a trade to run away on you. Remember, one big nasty loss on a goofed trade that you don’t manage correctly can wipe out days of hard work and eliminate the gains of many successful trades.

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The Key To Day Trading Success

The key to day trading is to permit yourself only one of four possible outcomes for every trade you take.

### 4 Allowable Trading Outcomes

1. **Break-Even**
   - This is a trade that has moved in your favor and has given you sufficient wiggle room to slide your stop to the B/E status. This means that if the stock trades back to your entry price you are out of the trade without suffering a loss. Some trades you will be able to move to B/E within minutes, with others it may take more time. The B/E move typically does not include your commission costs however if a stock has made a sizable move in your favor then you can include them.

2. **Small Loss**
   - If a planned day trade moves against us we want out quickly with the smallest loss possible. The typical stop we use for day trading is placed ½ percent from entry.

3. **Small Gain**
   - A small gain on a trade may be a quick scalp of ½ percent or more when a stock makes a sudden move in your favor or may be the result of taking profits on a trade that just isn’t going anywhere and you are closing it out before the end of the session.

4. **Large Gain**
   - When you take a precision entry and end up catching a substantial intra-day price move you can experience a large gain on a trade. Stocks make long range moves about 1 out of every 5 days and if you get on the right side of these they can be profitable.

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Stop Loss Distance For Day Trades

Proper stop loss placement will help you immensely with controlling your day trading losses. What is the distance you should place your stops on day trades?

The 0.5% Risk On Day Trades

Short Exit +0.5%

Long Exit -0.5%

Trade Entry

If you place your stop to far away from you entry price you will take an excessively large loss when the stop gets hit. However, on the flip side, if you place your stop to close, while you may not lose as much per trade, you will get stopped out more often, and this excessive number of stop outs can lead to the “death of a thousand cuts”.

After 10 years of day trading I have concluded that the best distance from entry for your stop loss, for most stocks is 0.5% or ½ percent. With a precision high probability entry you are giving the trade enough wiggle room to begin working, while at the same time limiting the extent of a potential loss. Since it is relatively easy to capture a ½ percent move intra-day in a stock trade, making up for a failed trade with your next winning trade is very doable. Even 2 or 3 0.5% stopouts can be made up for with one by one good winner during the day.
Are You With Us Or Against Us?

It is important to understand when taking a trade whether you are attempting a trade in the direction of the current daily/intra-day trend or against the trend.

2 Types Of Day Trades

- Trend Continuation
- Counter Trend Reversal

1.) **Trend Continuation**  This refers to finding an existing trend and jumping on board to ride that existing trend. If you are lucky you can catch a long range high volume move in the direction of the daily trend. This is where big money can be made with numerous add-ons to the trade to increase the position size and ride the wave all the way into the close.

2.) **Counter Trend & Reversal**  Although the trend can be your friend, trends don’t last forever and do in fact reverse. The longer a trend has been in place and the steeper the angle of the trend, the more prone it will be to reverse. Instead of attempting to initiate a trade in the direction of a trend at the tail end of the trend, a savvy day trader attempts to catch a trend pullback and reversal. Even if a stock is not ready to reverse the existing trend just yet, good profits can be experienced on counter trend trading, as no stock price moves in one straight direction forever without at least small reversions to the mean.
Consistent Profitability Involves 2 Things

Strive for High Accuracy and Larger Gains in your Day Trades.

1.) **More Winners Than Losers**  
The precision day trader should always strive to achieve more winning trades than losing trades. While this seems like an obvious concept, there are many trading books out there that try to convince you that you can make big money even if you win only 20-30% of the time as long as you win big. While this may be true in investing and even in Swing Trading it is not so true in day trading. The problem is our time horizon of seven hours to achieve profits while the market is open. Our gains on trades intra-day can only be so big. Therefore we must attempt to win more than we lose and this is accomplished by the accuracy of our entries and the timeliness of our profit taking.

2.) **Bigger Winners Than Losers**  
If we use strict ½ percent stop loss rules on all of our trading than we want the bulk of our winning trades to be 1% or greater. Remember the average stock moves 2.5% to 3.0% per day and if you catch a long range day it can be double or even triple that. If we get stopped out with a 0.5% loss twice, stopped out at B/E with no loss twice and catch a 5% run on a stock experiencing a long range move, than our net profit for the day after 5 trades is +4%. This is a win.

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1.) **Commission Costs**  The amount you pay in trading commissions will have a big affect on your profitability at the end of the year. You cannot be a successful day trader and still pay the $9.95 per trade fee found on most of the online brokerage sites. Also, overtrading and taking an excessive number of non-effective trades will also serve to increase the cost of doing business.

2.) **Slippage on Exits**  This occurs typically when your stop loss gets hit and the price slides further against you. Stop losses should always be STOP/MARKET orders. When I reach B/E status on a trade I will typically pad the stop a bit to help avoid slippage. For example if I took a trade on a stock at 57.25 and the stock has moved nicely in my favor, I will place my stop at 57.30 give it 5 cents of padding to help counter any slippage in the exit.

3.) **Trading Execution Errors**  This is typically caused by not paying attention to what you are doing when placing your orders. For example lets say you want to short 100 shares of a certain stock but you accidentally go long and BUY 100 shares of that stock. The stock moves in the right direction as planned but you are in the position the wrong direction. By the time you realize your error the mistake has cost you -$28.00 + commission costs.
Be Aware Of What Can Hurt You

- **Trading Execution Errors – Continued.** Trade Execution errors are very real and can be very damaging. Here is one personal example, I was up on my account over $300 on several small trades early on feeling pretty good about how the day was going. While searching for a music video on YouTube, I attempted to place an order to go LONG on Bidu a $400 stock. Being distracted I accidentally SHORTED Bidu and then instead of quickly exiting the trade I decided to just “go with it…” Bidu started a strong move to the upside against me but I countered every move by shorting more and within 15 min. had a drawdown of $327. Even though the drawdown was big, the average share price looked good and I was confident I would be able to get out of the trade break-even on a small pull-back. Still searching for the music video on YouTube, I went to place a limit order to cover my position at B/E so I would catch the price drop BUT accidentally placed a MARKET ORDER to cover which executed immediately locking in the $327 loss. All my trading profits for the day had been wiped out with two silly execution errors, adding insult to injury. Concentrate during order placement and double check always!

5.) **Stop Outs** The number of and size of the stopouts you experience will have an effect on your day trading profits over the long run. This is why it is important to use strict 0.5% stops on your trades and attempt to move to B/E on your trades as quickly as possible. It is a bit of a juggling act here. While you may to be able to move to B/E status on many trades very early, adjusting your stops to early can cause you to get knocked out of good trades that would have gone on to make you money.

6.) **Runaway Trades** A runaway trade is something you must always try to avoid at all cost. Typically they occur when we let our guard down and get lazy and sloppy. For some reason, against our strict 0.5% stop rule, we allow a trade to make a move outside that range, and perhaps out of shear whim we add into that position in an attempt to average it… before long we have a bigger position than we planned moving against us more than allowed. Stocks often make parabolic moves that defy all reason and if you happen to get caught in one of these moving against you, you can suffer very large day trading losses. This is to be avoided at all costs.
A Basic Tool Of The Day Trader

Being a successful day trader means that you must learn how to take profits at key price targets, while at the same time protect your original trading capital against loss.

The Range Or Bracket Order

<table>
<thead>
<tr>
<th>Order Type</th>
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<th></th>
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<tbody>
<tr>
<td>Range</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sell</td>
<td></td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Low Price</th>
<th>High Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>44.75</td>
<td>45.50</td>
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</table>

The Range Order (also referred to as a Bracket Order) allows you to set a low price and a high price for the exit on your trade. This allows you to immediately set your 0.5% stop and at the same time place an exit order for a portion of your trade at a predetermined target price based on the charts.

Once your trade moves in your favor and gives you enough wiggle room, you can place a Range order with one price being at B/E and the other price at your target. At this point you can only win or draw on the trade and you have effectively “castled” your king on the chess board.

You could walk away from the computer and your trade is on auto-pilot. Many times stock prices make very quick moves in your favor only to reverse within seconds or minute. Sometimes these occur so fast you would miss them if you blink. The range order will help you catch these rapid moves and lock in profits on your trades. You pull some off the table when it’s given you.
Profit Taking Technique For Day Traders

Learning when and how to take profits on day trades can increase your profitability dramatically.

Many Day Traders are not sure when then should take profits on a trade that moves in their favor. We have probably all experienced the trade were we take profits on a trade much to early and the stock goes on to move 3 times the distance from our entry. We feel cheated and short-changed. A simple technique that I use is to trail the current 5-min. trendline with a stop and take profits on the trade when the price breaks the trend line.

In the example above, lets say you went long 100 shares on a stock and quickly experienced a 1% gain on the trade in the big run up bar. You should take profits on half the position and keep the other half protected at B/E. A bit later in the trade when you notice the stock consolidating and respecting an upward sloping trendline you can slide your stop under that level. As the stock climbs the trend line, you can move your stop. You take your 2\textsuperscript{nd} profit on a trend line break with an extra 1% gain.
Focus On Your Daily Profit Target

All Day Traders should compute their daily profit target and should focus on trading with “base hits” and “doubles” throughout the day, to use baseball terminology. Occasionally you will hit the home run.

Notice above that with only a 0.4% daily profit on your initial trading balance you will double your account within one year. Multiplying 0.4% against your available trading capital helps you determine your Daily $ Profit target. This will give you weekly and monthly targets as well.

The Daily profit target is important as it gives you a defined objective to work towards each day. At the end of the day you will have either met this objective or not and this framework will help you stay focused.

Having a realistic target to aim towards each day will also give you a sense of achievement each time that you attain your trading goal and will also help you to become a more careful trader. How? You will quickly learn that getting sloppy, swinging for the fences and taking a big loss on a trade is just going to be a gamble that can set you back on your plan.

You will have to dig yourself out of the hole you created before you can get back on track. For example, lets say using the example above that your daily profit target is $100. On Monday you get sloppy and take a $150 loss for the first day of the week. If you meet your trading target for the next couple of days you will get back on track by Wednesday so you have essentially lost 2.5 profit days from the market due to the initial loss.

Doubling your starting balance is a realistic goal and a noteworthy achievement for the beginning day trader as the majority newbies destroy their accounts within the first year.

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The Hardest Thing About Day Trading

Without a doubt, the hardest thing about Day Trading is just getting through the personal learning curve before crashing and burning. A "learning curve" is defined as the time and effort required by an individual to acquire and become proficient in a new skill. Day trading is definitely a complex skill and is not easy. It requires a lot of work, dedication and continuous exposure to the market before you can develop the self-control necessary to be profitable on a regular basis. Remember, most day traders go broke or quit within the first year.

Comprehensive knowledge of day trading does not come overnight. You wouldn’t expect to become a chess master after playing a few games with a friend. It might take a hundred matches for the complexity of the game to finally start to sink in and several hundred games to truly master the strategies. Day Trading is game of chess that you play with the market, only the stakes are higher, you are using money to play the game! There is a lot to Day Trading. You must master complex technical analysis strategies that help you time your entries and exits and the mechanics of order placement. You must develop consistency, patience, self-control, and an analytical mind, so that you can learn and improve from your failed trades and mistakes in money management. You have to overcome boredom, laziness and sloppiness.

As you expose yourself to the day trading process day after day, week after week, you will develop a calmer mind and learn how to control the emotions of fear and greed which very often take control of us and cause us to react to the market in ways we normally wouldn’t and in ways we know we shouldn’t. Your first goal is to be able to play the game and NOT LOSE money. At the end of the week you want to have a profit or at the very least be at break-even. Once you achieve this level of trading proficiency you can go onto strive for higher and higher profits in your trading. BUT it has to be done in a strict and controlled manner or it can quickly lead to disaster.

If you really want to become a profitable day trader and not just another causality that gets wrecked by the market then you will want to adopt the following trading advancement plan.

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Mastering Day Trading With the 8-Step Plan

How to get through the day trading learning curve without going broke first!

How The 8-Step Plan Works

The plan is designed to wean you along in baby steps and protect you from the number one threat to your day trading career... yourself!

Everyone should start at **Beginning Day Trader Level 1**. It doesn't matter if you have a $400K account to trade, you will still want to start out at square one and *EARN* your way, step by step to Power Day Trader Status.

<table>
<thead>
<tr>
<th>Advancement Phases</th>
<th>Trader Level</th>
<th>Max Daily Position Size</th>
<th>Daily Loss Limit</th>
<th>Minimum Weekly Target</th>
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<tr>
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<td></td>
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<tr>
<td></td>
<td>3</td>
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<tr>
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<tr>
<td></td>
<td>8</td>
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<td>$2,500</td>
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</table>

**Advancement Rules:**

2 consecutive weeks reaching Min. Weekly Profit Target Advances you to the next level.

2 consecutive weeks with a net loss for the week, gets you Demoted back to the previous level.
So that you fully understand the 8-Step plan lets review the details for each column in the grid.

**Max Daily Position Size:** This is the maximum amount that you can have in 1 or more trades at *the same time intra-day*. For example, at Level 1, you can trade more than $10,000 cumulatively throughout the day over a series of trades but never more than $10,000 at any one given time. This max position size will keep your losses on any one trade that moves against you to minimum and easier to deal with.

**Daily Loss Limit:** This is the maximum amount that you can lose during a given trading day. If you hit your Daily loss limit at any time during the day you **MUST QUIT trading with real money**. You can watch the market and paper-trade all you want, but no more live trading! If you lose your daily loss limit on one or several trades, then things are not going in your favor that day. The Daily loss level will keep you from turning into a “*get even - vengeance trader*” for the remainder of the day which can easily triple and quadruple your initial smaller losses adding insult to injury.

**Minimum Weekly Target:** This is the minimum profit goal that you must achieve two weeks running to advance to the next level. It is a relatively conservative profit goal, as a good day trader could easily make the entire weekly target in a single trading day using the restrictions of the Max. Daily Position Size at that level. The idea is to get yourself finishing the week without big losses and with an acceptable profit - *consistently* before becoming more Aggressive.
The 8-Step Plan Q & A

Q If a person already has some experience in day trading should they still start at level #1?
A Yes, it's still a good idea to begin at the beginning and earn your way through each level step by step. If you are really that good you will have no problem progressing from level to level every 2 weeks.

Q What is the quickest the average person can go through all the levels to get to level 8?
A If you were able to progress to the next level every two weeks without fail, you would make it to level 8 on week 15 or just over 3 1/2 months. However, most people will probably need more time at each level before being able to maintain the consistency to advance. The objective is to work through the learning curve gradually and not rush.

Q Why is it so important to go through each level step by step, if I do good for a couple of weeks at level one, why can't I just jump to the middle?
A There is a very important thing in Day Trading that you can only develop with step by step experience and that is proper position sizing on your trades at each level. Also, it is being able to psychologically handle temporary draw downs at Intermediate level #5 with a Max. daily loss limit of $400. A $200 drawn down on a trade might be completely acceptable relative to that level, however, a beginning trader might panic because they are not used to, nor have they experienced an intra-day loss that big. With a step by step advancement you condition and calibrate your mind to work at higher levels.
A New and Unique Day Trading Strategy

The 1-2 Punch Entry Technique

Sample Long Trade

In my years of day trading and research I have developed a highly accurate, low risk entry technique I call the “1-2 Punch”. This setup involves two entries, the first getting you in on an extreme point, the 2nd allowing you to add safely to your position at a confirmation point.

The 1-2 punch setup occurs every trading day at some point in the day on almost all stocks and is easy to spot once you know the basic mechanics as well as the specific rules for the entries. This is by far, my favorite day trading technique and the one that generates me the most income.

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A New and Unique Day Trading Strategy

*The 1-2 Punch Entry Technique*

Sample Short Trade

Notice in the shorting example above that the first entry was taken at the almost absolute high of the day to the penny. *You may ask..* how in the world did I know to Initiate a short at that precise spot?

The second entry is an add-on after the stock gives us a solid confirmation signal based on 2 important criteria. The great thing about this technique is by the time we get the add-on confirmation signal we are already B/E or “break-even” with a protective stop and can’t lose on the 1st position. Also, the confirmation signals tend to be very high probability, the majority of the time resulting in good follow through.

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- Ongoing Education and Trader Conference Calls
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"Everyone Knows That You Need To Invest For Yourself... But That Doesn't Mean You Have To Trade By Yourself"

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