

the idea company
STARTUP STUDIO

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The Idea Company - www.theideacompany.dev

www.day-trading-that-works.com

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Requirements

No previous knowledge on trading required, but you should have basic knowledge on economics. In this book, I will cover day trading during regular trading hours. I will not talk about options trading, FOREX trading nor futures trading.

Getting book updates

To receive updated versions of this book and new posts, visit www.day-trading-that-works.com

Disclaimer

Becoming a day trader takes hard work, dedication, and time.

I spent hundreds of hours testing and back-testing my setups, tactics, brokers, and tools. They are effective for me, but they might not be for you.

This is not financial advice, DYOR (Do Your Own Research) 🤞

👉 I appreciate any ideas to improve this book, report of errors, and misspellings (sorry I'm not english native speaker): sam@day-trading-that-works.com



WEVAT

"Dow's up!"


Preface

Why I wrote this book

“Those who do not remember the past are condemned to repeat it.” - Benjamin Graham, *The Intelligent Investor*

Teaching others is a great approach to ensure that you have a thorough understanding of the material yourself. Writing this book gave me the opportunity to challenge myself, my routine, and my strategies.

I started day trading in 2017. At first, I was very unsuccessful financially. Nearly all of my missteps might have been prevented if someone had taken the time to tell me the things I detail in this book. I designed this book to help you avoid wasting time and money while rapidly progressing toward your goal of being a successful day trader.

 **It's recommended that you don't start trading with real money unless your win rate is above 50% and your P/L ratio is larger than 1. (This is discussed further in Chapter 6.)**


Why I started day trading

Younger me loved adrenaline thrills. Risky activities like skydiving, flying planes and racing supercars on track with friends were a lot of fun.

Since starting a family and relocating to the United States, I no longer have as much time for my hobbies, but day trading brings me the adrenaline rushes I need.

Additionally, it generates financial gain. What else can I ask for?

If you enjoy a challenge and thrive under pressure, day trading could be for you; if not, I advise you to find anything else to do because, believe me, the road is long and paved with suffering. There's no way out!

 **Keep in mind that the book's data was collected during a market downturn, from November 2021 to October 2022. Frequent updates are provided on www.day-trading-that-works.com.**

Disclaimer: research shows that the majority of day traders lose money.

In a 2014 paper titled "Do Day Traders Rationally Learn About Their Ability?," UC professors examined 3.7 billion trades from the Taiwan Stock Exchange between 1992 and 2006 and discovered that, while predictably profitable traders accounted for less than 3% of all day traders on an average day, they generated only 9.81% of the day trading volume.

Professors from Oxford and UCD discovered that only 50% of 1,146 brokerage accounts day trading the U.S. markets between March 8, 2000 and June 13, 2000 were profitable with an average net profit of \$16,619 in an article titled "The Profitability of Active Stock Traders" published in the Journal of Applied Finance in 2005.

According to a 2003 Financial Analysts Journal study titled "The Profitability of Day Traders," just 35% of 334 brokerage accounts day trading the U.S. markets between February 1998 and October 1999 were profitable, and only 14% produced gains exceeding \$10,000.

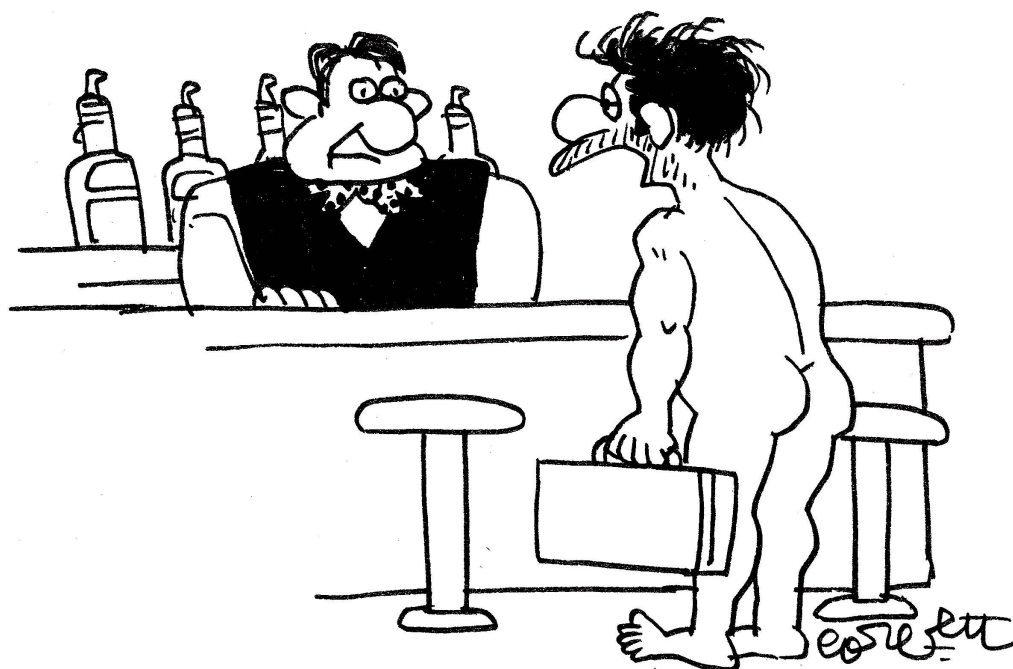
These three studies highlight how challenging it is to calculate the success rate of day traders. Studies show that at least 50% of would-be day traders would lose money. This demonstrates how challenging stock trading is. Day trading is quite risky, and you could lose all of your money. Every dollar you trade or invest is at risk.

Sources:

Barber, Brad & Lee, Yong-III & Liu, Yu-Jane & Odean, Terrance. (2014). Do Day Traders Rationally Learn About Their Ability?. SSRN Electronic Journal. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2535636

Garvey, Ryan and Murphy, Anthony, The Profitability of Active Stock Traders. Journal of Applied Finance, Vol. 15, No. 2, Fall/Winter 2005. Available at SSRN: <https://ssrn.com/abstract=908615>

Douglas J. Jordan & J. David Diltz (2003) The Profitability of Day Traders, Financial Analysts Journal, 59:6, 85-94, DOI: <https://www.tandfonline.com/doi/abs/10.2469/faj.v59.n6.2578>



"BETTER MAKE IT A DOUBLE, JAKE.
I'VE HAD A REALLY HARD DAY."

Chapter 1 - Introduction

American economist and professional investor Ben Graham frequently compared the market to a person. He addresses him as Mr. Market. He claimed that Mr. Market suffers from manic-depressive disorder, which results in a great deal of irrational thinking and emotion in the way he values the stocks. Mr. Market does not always value stocks in accordance with how a business would be valued by an appraiser or a private buyer. Instead, he willingly overpays for equities while they are rising, and he desperately tries to sell them when they are falling for less money than they are actually worth.

This is particularly valid for day trading. It is impossible to rationally price a stock. Chart patterns, however, are quite foreseeable. There is a nearly 100% likelihood that a bull flag that is building above the 9EMA* and the VWAP* will breakout upward.

To me, technical analysis is actually the only way to profit by buying and selling a stock on the same day, with the rare exception of an unusual breaking news event.

**: See statistics in Chapter 5*

Accelerated learning

A few days of day trading are equivalent to several months of conventional swing trading and years of consistent long-term trading. We place a dozen trades per day.

Experience accumulates quite quickly.

The first few months are often the hardest. Don't let yourself get down.

Learn the ropes of day trading using fake money. In practice, paper trading is the norm.

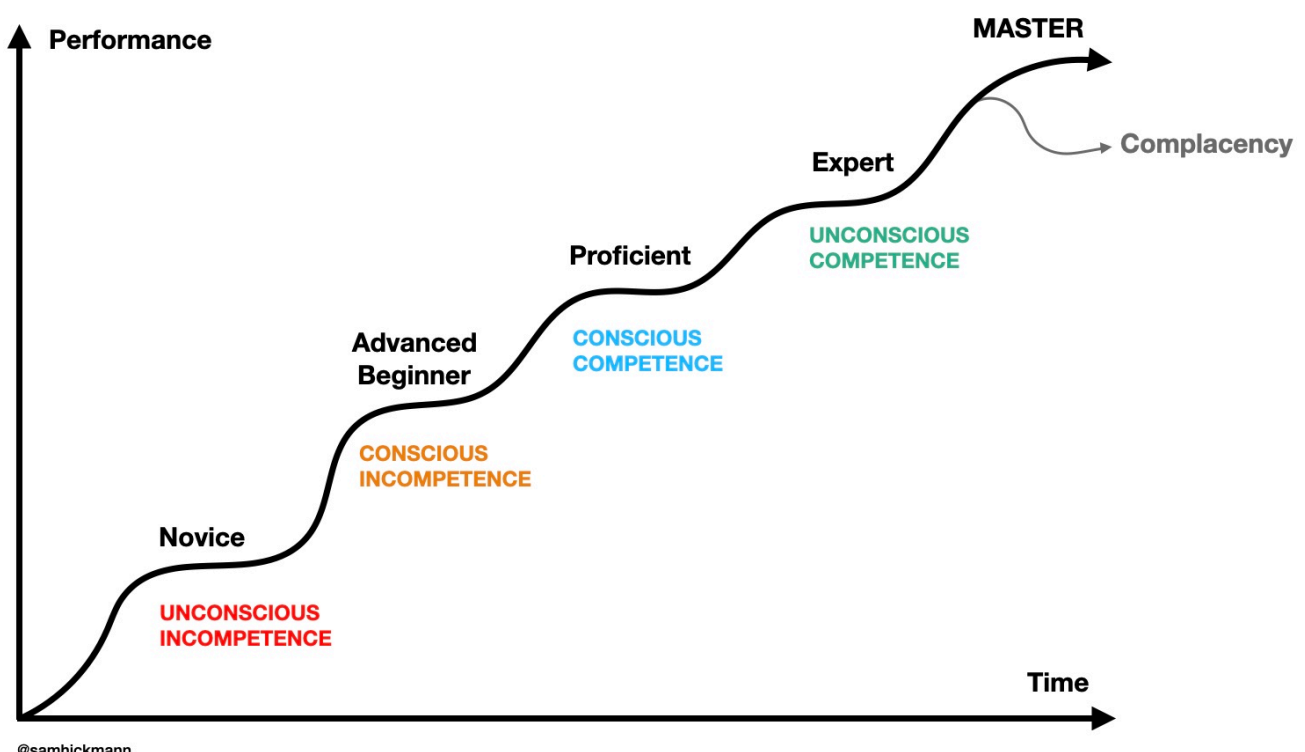
To transition from paper profits to real money profits, start trading with only 10% of your account amount.

Never risk more money than you can afford to lose when trading.

You may think you're better than the rest of us, but you'll still have to go through hardship. Day trading is a tough business. Your wins will be smaller than your losses. As a result, your emotional state will be very unstable, like to a roller coaster.

😬 **Self-control and discipline are vital. You're expected to show up first thing every day. Knowing yourself is essential. Understand how you handle stress when trading money you've worked hard to obtain is key to create your strategy.**

The four stages of competence



Step 1. Unconscious Incompetence

You don't know what you don't know as a new day trader. You essentially know that you must buy low and sell high. You should therefore begin day trading with fake money (paper trading).

Step 2. Conscious Incompetence

You will advance to the next stage quite rapidly and become aware of your ignorance. This stage is frequently known as Advanced Beginner. You begin to understand the subtleties of day trading.

Step 3. Conscious Competence

When your paper trading starts to turn a profit, you've reached this level of conscious competence. Then, I advise starting an actual trading account with only approximately 10% of the money you intend to use later. Continue doing this until you can string together three lucrative months. You can trade with more money as your confidence grows.

Step 4. Unconscious Competence

You can refer to yourself as an expert when your trading is highly successful and you have 90% green days. You have good emotional control, you recognize there will be bad days and know how to handle them, and you make enough money day trading to quit your job if you choose to.

I include myself in this group.

Mastery

There is yet one more step, which only a select few can complete. People who earn over 8 figures annually, in my opinion, are day trading masters.

What you can expect in term of profit

Day trading will not help you become a billionaire, if that is your goal. You will be in the 0.1% if you even manage to earn seven figures.

In light of this, with a \$100K initial brokerage account, if you have a strong sense of discipline, you can expect:

Year 1: between 20K and 40K in profit before tax

Year 2: between 50K and \$500K

Year 3+: above \$500K



*How do you become a day trading millionaire?
Easy, just start out as a day trading billionaire.*

Chapter 2 - The Basics

In this chapter, we will learn about:

- How to read and interpret a chart, intro to technical analysis (TA)
- Indicators to add on top of your charts
- The indices/ETFs to keep an eye on
- Choosing a broker
- Requirements
- Leverage
- Margin calls
- Shorting stocks
- IRS regime to opt-in as soon as possible
- The type of orders we use

How to read and interpret a chart

Nowadays, technical analysis is the cornerstone of day trading. In order to maximize profit, we are aiming to discover strong momentum that will allow us to buy and sell (or sell short and buy to cover).

First things first: learn the ins and outs of reading charts.

We'll discuss about the software and setup I use in the following chapter.



Each stock has its ticker symbol. For instance Apple is AAPL. You can quickly jump from one stock to another by entering its ticker.

By convention in this book, I put a \$ sign before it, because that's how people use it on Twitter.

Trading hours

Pre-market starts at 4:00am ET

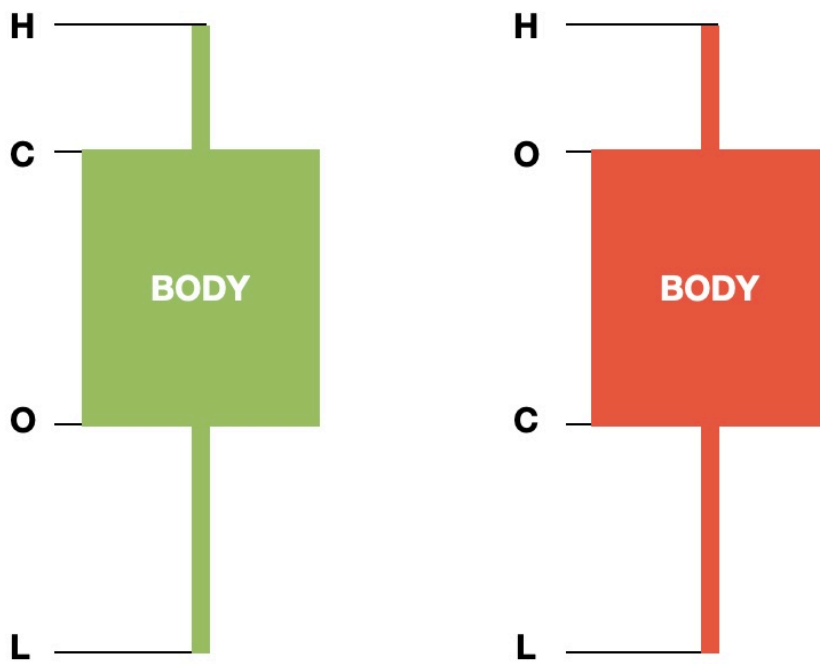
Regular session is from 9:30am to 4:00pm ET

Post-market session is from 4:00pm to 8:00pm ET

In this book, we only speak about trading during the regular session hours because outside of these hours, volume is low, volatility and spread can be non-sensical, and only limit orders can be placed (no stop-losses).

Candlesticks

There are various methods for showing how the price of a stock changed over a specific timeframe. Using conventional candles for day trading is highly advised because they provide four pieces of information at once as opposed to just one with lines.



@samhickmann

A green candle indicates:

O = Bottom of the body = price at the candle's open

H = High of the wick = the higher price reached during the candle timeframe

L = Bottom of the wick = the lower price reached during the candle timeframe

C = High of the body = price at the candle's close

When a candle is red, the O and the C are switched.

Indicators to add on top of your charts



Must-have indicators

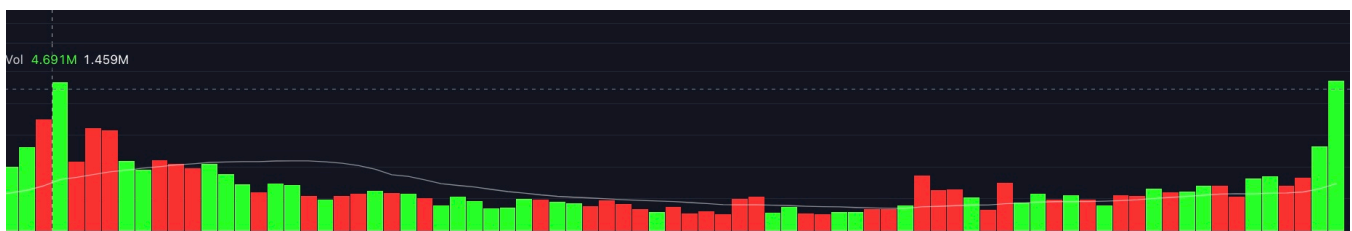
There are virtually an infinite numbers of indicators available. With modern trading platforms, it's easy to create your own. I recommend to keep it simple. Information overload is harmful.

I'll give a brief description must-have indicators. Chapter 5 and chapter 6 explain how to apply them to your trading.

Volume bars

Each candle within a certain timeframe has a corresponding volume bar. This information shows how many shares were traded throughout the time period. It's a crucial information.

A green volume bar indicates that the price increased during this time. When a volume bar is red, the price went down. The white line indicates the moving average.



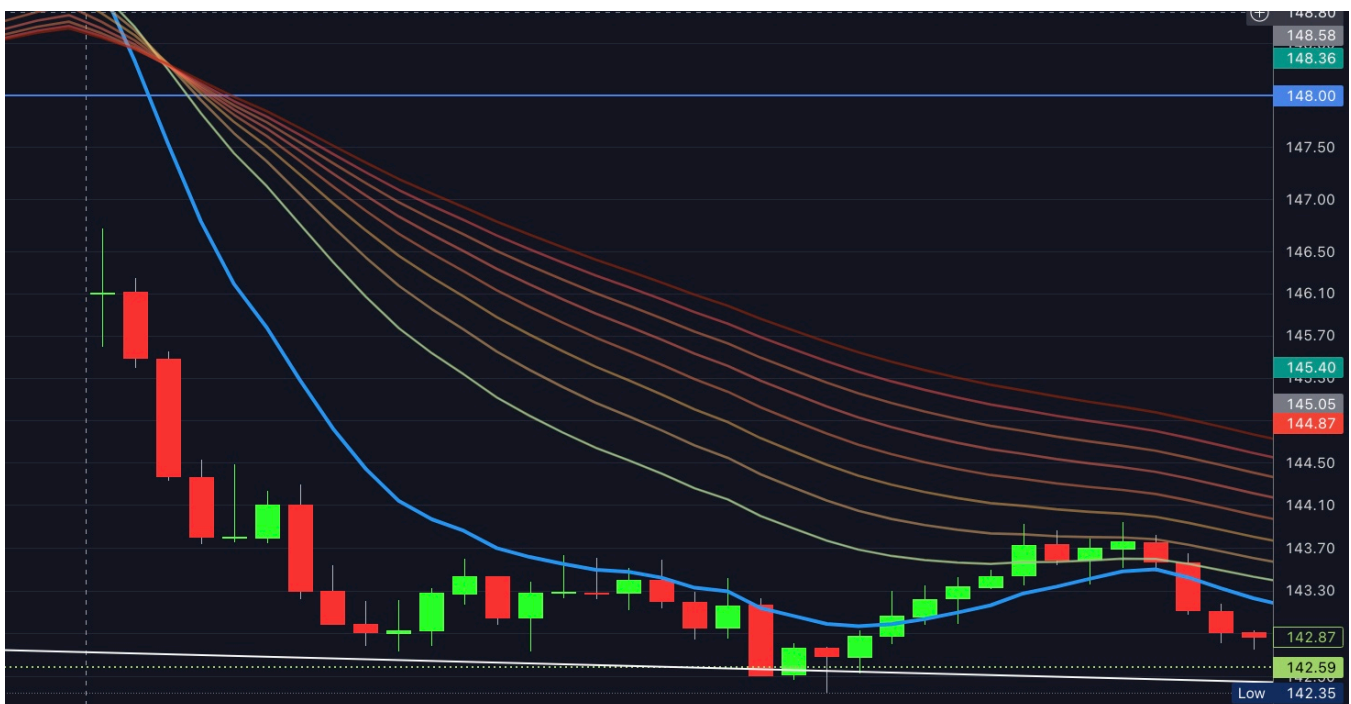
Exponential moving averages (EMA)

The 9 EMA and the 20 EMA are essential indicators for the 5-minute timeframe.

Since exponential moving averages give more weight to more recent data, we use them instead of simple moving averages.



In addition, the EMA ribbon (an indicator used to plot up to eight additional exponential moving averages, from 20 to 55 periods) is also interesting, even though it's more a nice-to-have than a must-have.



VWAP

The volume weighted average price is the same on each timeframe. It is reset at the start of every new trading session. It's a big deal. All day traders use the VWAP.

VWAP is calculated by adding up the dollars traded in each transaction (price multiplied by volume) and dividing by the total number of shares traded.

$$VWAP = \text{Cumulative Typical Price} \times \text{Volume} / \text{Cumulative Volume}$$



VWAP is used by institutional buyers, such as mutual funds, to allow them move into (or out of) stocks with as little market impact as possible. Where possible, institutions will attempt to buy below the VWAP or sell above it. As a result, their activities drive the price back toward the VWAP rather than away from it.

Nice-to-have indicators

They are what I refer to as "nice-to-have" indicators because I only use them when I'm not totally convinced whether to enter a trade. The nice-to-have indicators assist me in making the ultimate judgment if the pattern is imperfect. In other words, it's already a bad sign if I'm looking at them.

They are lagging indicators, and even if they appear to be performing admirably in retrospect, you will soon find that there are many edge cases and counter examples.

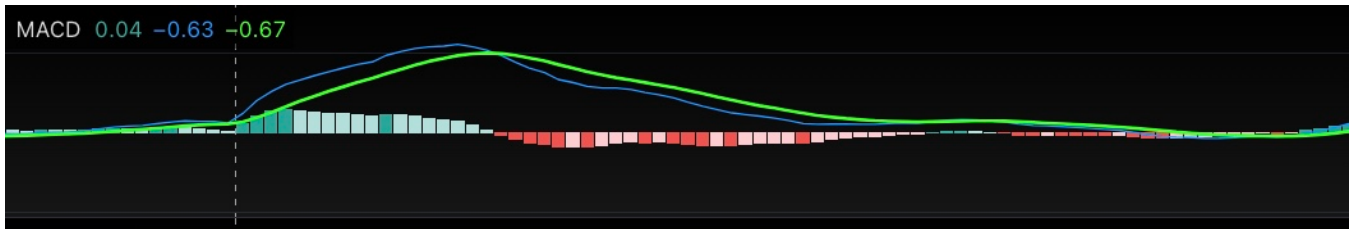
MACD

The Moving Average Convergence Divergence is a momentum indicator that follows trends. The 26-period EMA is subtracted from the 12-period EMA to calculate it. It functions in tandem with the

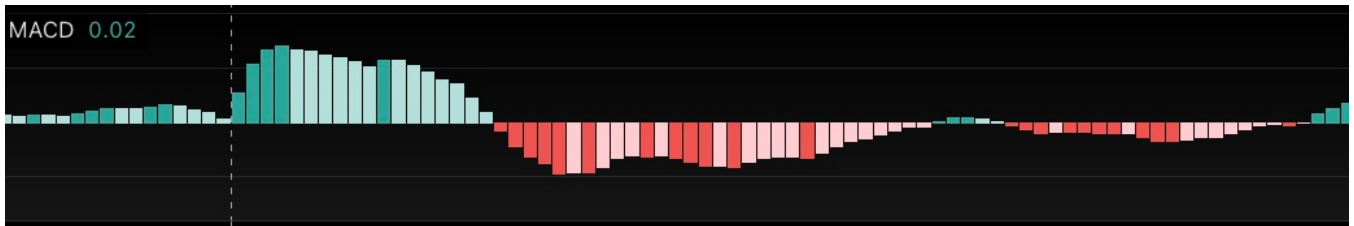
MACD's 9-day EMA Signal. A positive histogram bar is displayed when MACD is above the signal, and vice versa.

You'll see that I've removed the MACD line and the Signal line, leaving only the histogram because the other information is redundant.

Example of "out-of-the-box" MACD:



How I display my MACD:



RSI

The Relative Strength Index, which quantifies the size of recent price moves and is shown as an oscillator from 0 to 100, is a momentum indicator. The stock is oversold if the value falls below 25, and overbought if it goes above 75.

Be careful, an oversold stock rating on the RSI may be misleading as shown in the example below:



ATRP

I only use Average True Range Percentage (ATRP) on the daily timeframe, and it helps in my decision-making when picking stocks for day trading (see Chapter 4). It's a market volatility indicator. It is usually calculated using the 14-day simple moving average of a series.



Other indicators

I probably evaluated over 50 other indicators, including the Bollinger bands, stochastic, and Cipher A/B, but in the end, I found them to be

too complex and unsuitable for day trading. I believe it is preferable to become an expert in the must-have indicators described above.



Logarithmic prices

We plot our charts using log pricing.

Logarithmic price scales are plotted such that two equivalent price changes are represented by the same vertical changes on the scale. Both \$10 and \$20 and \$20 and \$40 reflect a 100% price increase.

Compared to linear price scales, logarithmic price scales show less abrupt price changes.

The gap between each dollar on a linear pricing scale is extremely small if an asset price collapses from \$100 to \$10, making it difficult to discern a significant change from \$15 to \$10.

Linear scale:



Versus Log scale:



Key indices/ETFs to keep an eye on

\$QQQ & \$SPY

The \$QQQ and the \$SPY are 2 exchange-traded funds (ETFs) that mimic the NASDAQ and S&P500, respectively. They represent the general market, therefore I keep a watch on them whenever I day trade.

ETFs are tradable. However, I recommend day trading the \$TQQQ ETF, which is a 3x leveraged mirror of the \$QQQ.

In addition, rather than shorting \$QQQ or \$TQQQ, long the \$SQQQ, which is three times the inverse of \$QQQ.

💡 **On Sunday afternoon, you can have a glance of what's coming for Monday by looking at the NASDAQ futures, \$NQ1! for instance.**

\$VIX

The \$VIX is a live index that reflects the volatility of the market. It produces a 30-day forecast of volatility (how fast prices change) using the prices of S&P500 index (SPX) options with close-in-near-term expiration dates (how fast prices change). The greater the \$VIX, the better it is for day trading, because that's generally when big moves happen.

Here is an example of the VIX (candles) compared to the \$QQQ (orange line):



I also have several watchlists that I constantly update. Here is an example:

Symbol	Last	Chg%	Ext
FUTURES			
100 NQ1!	11587.0	3.13%	
500 ES1!	3911.2!	2.40%	
INDEXES			
100 NDX	11546.1	3.17%	
500 SPX	3901.0!	2.46%	
30 DJI	32861.1	2.59%	
P PCC	0.933	-12.33'	0.00%
N NDX/SPX	2.96	0.69%	
500 US500	3911.2	3.48%	
2000 US2000	1852.2	2.65%	
40 CAC40 ^E	6244.0!	-0.51%	
ETF			
QQQ	281.22	3.06%	0.22%
SPY	389.02	2.38%	0.17%
DIA	328.58	2.53%	0.10%
RSP	140.18	2.08%	
S5TH ^E	36.77	19.34%	
M MMFI ^E	55.51	17.16%	
M M2SL ^E	21.503*	-0.60%	
U US10Y-U	-0.071	45.38%	
U US10Y-U	-0.408	-14.29'	
U US30Y/U	0.991	-1.56%	
F FEDFUNL ^E	3	9.87%	
US30Y	4.149	1.44%	
US10Y	4.016	2.37%	
US05Y	4.188	3.05%	
US02Y	4.424	3.36%	
F FB+AMZI	750.65	1.00%	0.04%
VIX ^D	25.75	-5.99%	
OTHERS			
USIRYY ^E	8.20	-1.20%	
UNRATE ^E	4	-5.41%	
EURUSD	0.9966'	0.02%	
DXY ^E	110.56'	0.75%	
TLT	96.80	-0.69%	-0.01%
TLT/JNK	1.06	-1.44%	-0.01%
11 S&P SECTORS			
S5COND	1132.3!	-0.30%	
S5CONS	761.96	2.22%	
S5HLTH	1547.8!	1.69%	
S5INDU	800.43	2.38%	
S5INET	2271.6!	4.52%	

Choosing a broker

Don't assume that any broker will do a good job for you. Try out a few for a while. If a broker offers you free stocks, don't fall for it; the amount of stock you'll actually receive is too small to be worth the trouble. The quality and reliability of their service is of greatest priority.

Some brokers may be unable to keep up with your orders if the volume suddenly spikes (due to, say, breaking news).

As I don't use their tools for order placement or technical analysis, my view of their trading software quality is irrelevant to me. I'm using TradingView for this purpose (more info in next chapter).

Because of these five reasons, TradeStation is my preferred broker:

1. No commissions*
2. Compatible with TradingView
3. Reliable
4. Quick and easy access to their support by phone and email
5. Paper trading (the ability to trade with fake money)

Their software only works on PCs, and crashes once a day though. I don't mind because I trade with TradingView, but just in case you don't, be informed.

* 🤔 **No commissions is a myth. There is always regulatory and trading fees. So, technically, these aren't commissions, but you'll be paying them as such... "Regulatory fees consist of a transaction fee of 0.00221% of the total dollar amount of securities sold and a trading activity fee of \$0.000119 per share for each sale of a covered equity security, with a maximum charge of \$5.95 per trade." + "For all orders greater than 10,000 shares, an additional \$0.0005 per share will be assessed for each executed share in excess of 10,000."**


Requirements


According to FINRA regulations, you need to deposit at least \$25,000 into your brokerage account before you can day trade.

Once you open/close at least 4 orders on the same day over the course of five working days, you will automatically be given the status of day trader (PDT - Pattern Day Trader).

With this status, your leverage ratio will increase from 2:1 to 4:1, allowing you to trade with four times as much liquidity. For instance, if you have \$50,000 in cash in your brokerage account, you can purchase stocks worth \$200,000 with that money. It's called margin trading.

If you only make three day trades in any rolling five-day period when you first start day trading, you can get around the PDT rule (and therefore have less than \$25K in your account).

 **Note: If you frequently day trade, your broker may at some point inquire about your LTID (Large Trader Identification Number assigned by the SEC). You can receive a free identification number from the SEC by completing their Form 13H.**

 **Congratulations! It implies that you are now moving so much money that the SEC wants to monitor you. They're checking to make sure you're not up to anything dubious.**



An awkward moment at the shareholders meeting.

Leverage

Your broker will "loan" you (for free) up to four times the amount of money you have placed (your net worth) when you day trade.

You can purchase stocks worth up to \$100,000 with just \$25,000 in your account.

There is nothing to fear as long as you close your trades the same day. If you don't, be wary of the margin calls.

! Attention: Your broker won't let you use a 4x leverage on some equities because they are exceedingly volatile. Verify the Special Margin Requirement List that your broker has provided. Taking Tesla (\$TSLA) as an example, you can only use a leverage of 2 due to the 50% margin requirement.

Margin calls

Day trading is when you buy and sell a stock on the same day. If you keep a position open during the night, it is not only a bad idea because the price at the next day's open may be significantly lower, but you will also receive a margin call from your broker. You must deposit funds or you will be unable to trade for 90 days (and you will still have to pay the money anyway).

i When you day trade, your broker gives you a 4:1 leverage, but you must close your position every day.

Let's look at an example to see how a margin call works:

You have \$25,000 available. You acquire 10,000 shares at \$10 per share using a 4x leverage margin, which amounts to borrowing \$75,000. Your position will cost you \$100,000.

Assume you failed to close your position on the same day.

The price drops to \$3 the following day. Your investment is now worth 10,000 times \$3, or \$30,000.

Your current net worth is $\$30,000 - \$75,000 = -\$45,000$. Your broker will request \$45,000 in cash immediately.

Shorting stocks

Being LONG refers to purchasing a stock with the purpose of selling it higher for a profit.

Being SHORT is the act of selling a stock with the goal of repurchasing it at a discount, and make a profit.

Shorting is technically more difficult than longing. In fact, you borrow shares from your broker, sell them on the market, purchase them again, and then return the shares to your broker. Because of this, when you short stocks, your broker charges you a fee. Because your broker doesn't own some of them or has already lent them to someone else, some stocks cannot be shorted.

TradeStation allows me to book them in advance if I need to short stocks that are difficult to borrow.

IRS regime to opt-in as soon as possible

Mark-to-market election

The early years of day trading will be loss-making. Only \$3,000 of your net losses can be written off each year. Yes, you can carry the balance over to subsequent years, but there is a better option, and I wish I had known about it sooner.

Section 475(f) refers to it as the Mark-to-Market (MTM) election.

After making this selection and providing evidence that you are day trading, you can write off all your losses.

If you aren't a new taxpayer, you need to make your choice by the April 15th deadline (excluding extensions) for filing your tax return for the year before the one in which it will be effective.



The type of orders we use

There are several type of orders. You don't need to know them all. We only use:

- Limit orders
- Stop orders
- Market orders
- Bonus: Stop Limit orders

But before, we must first define the spread, the bid, and the ask.

Spread, Bid, Ask

When you want to buy a stock, you decide on the maximum price you are willing to pay.

\$10, as an example. It is called the Bid.

Likewise, the seller has a minimum price at which he is willing to sell.

\$11, for instance. It's known as the Ask (also called the Offer).

The spread is the difference between the Ask and the Bid.

The spread in this illustration is \$1.

No transactions take place until the spread is zero, which occurs when either you or the seller agrees to raise your bid price to \$11 or lower your asking price to \$10.

(In reality, it's a little more complicated, but for now, that's all you need to know.)

Order types explained, by the example

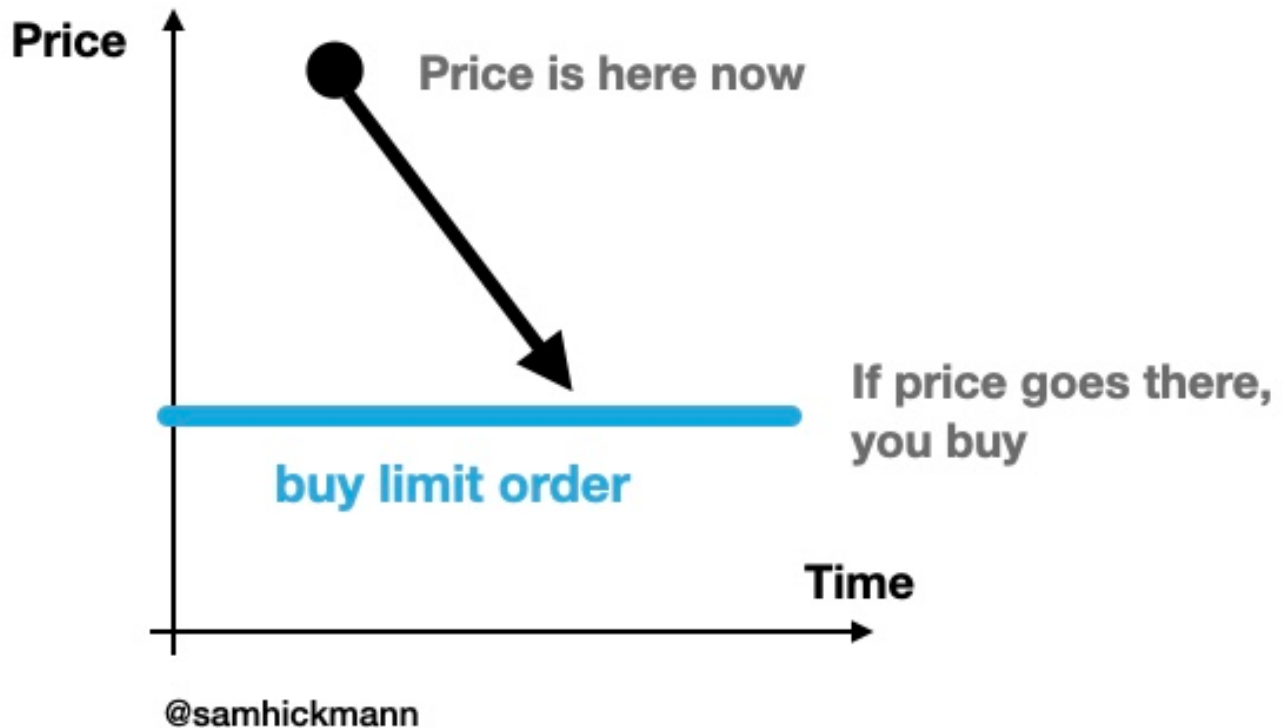
Long side, buy order

The first step, depending on the pattern and your approach, is to decide whether you want to "buy the dip," that is, when the price pulls down and you buy, or whether you want to buy the breakout upward (if the price goes up, you buy)

Buy limit order (buy if the price does a pullback)

Assumption: the price per share is currently \$10.50.

You expect a pullback and want to buy 10 stocks for a maximum price of \$10 per share. You enter a buy **limit order** for 10 shares with a price of \$10.



When a seller reduces their asking price to \$10, you become the owner of 10 shares.

Buy stop order (buy if the price breaks upward)

The buy stop order is another useful type of order. It will only be triggered if the price rises.



Now that you are the owner of 10 shares, one of two things may occur. Either the price increases, or the price decreases.

Of course you want the price to increase and you want to earn a profit, but you also don't want to lose too much and you want to sell if the price drops too low.

Sell limit order

Let's say you want to take your profit if the price goes to \$15.

You enter a **sell limit order** for 10 shares with a price of \$15.

This type of order is called a "**target**".

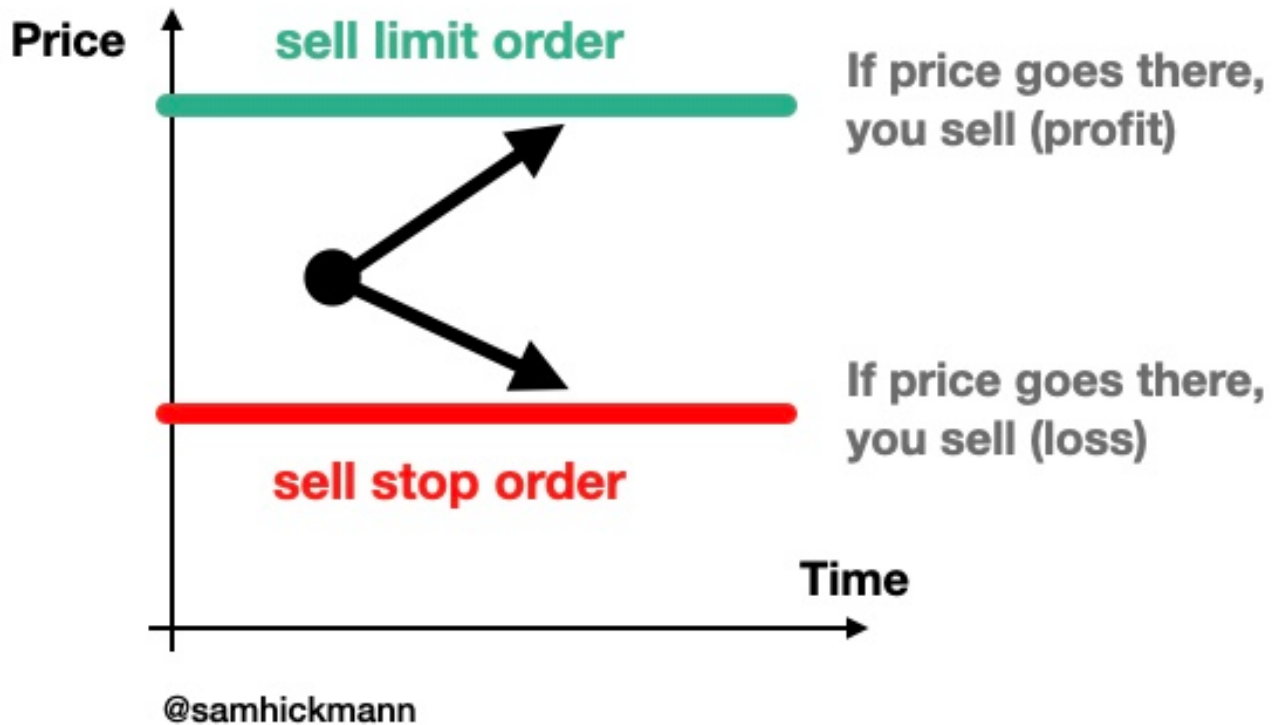
Sell stop on quote order

Let say you want to sell if the price goes down to \$9.

You enter a **sell stop on quote order** for 10 shares with a price of \$9.

This type of order is what we call a "**stop loss**"

i Note: to enter these 2 orders, nous need to use an OCO order: One-Cancels-Other. But don't worry, the system we use will do that for you automatically as we will see in Chapter 3.



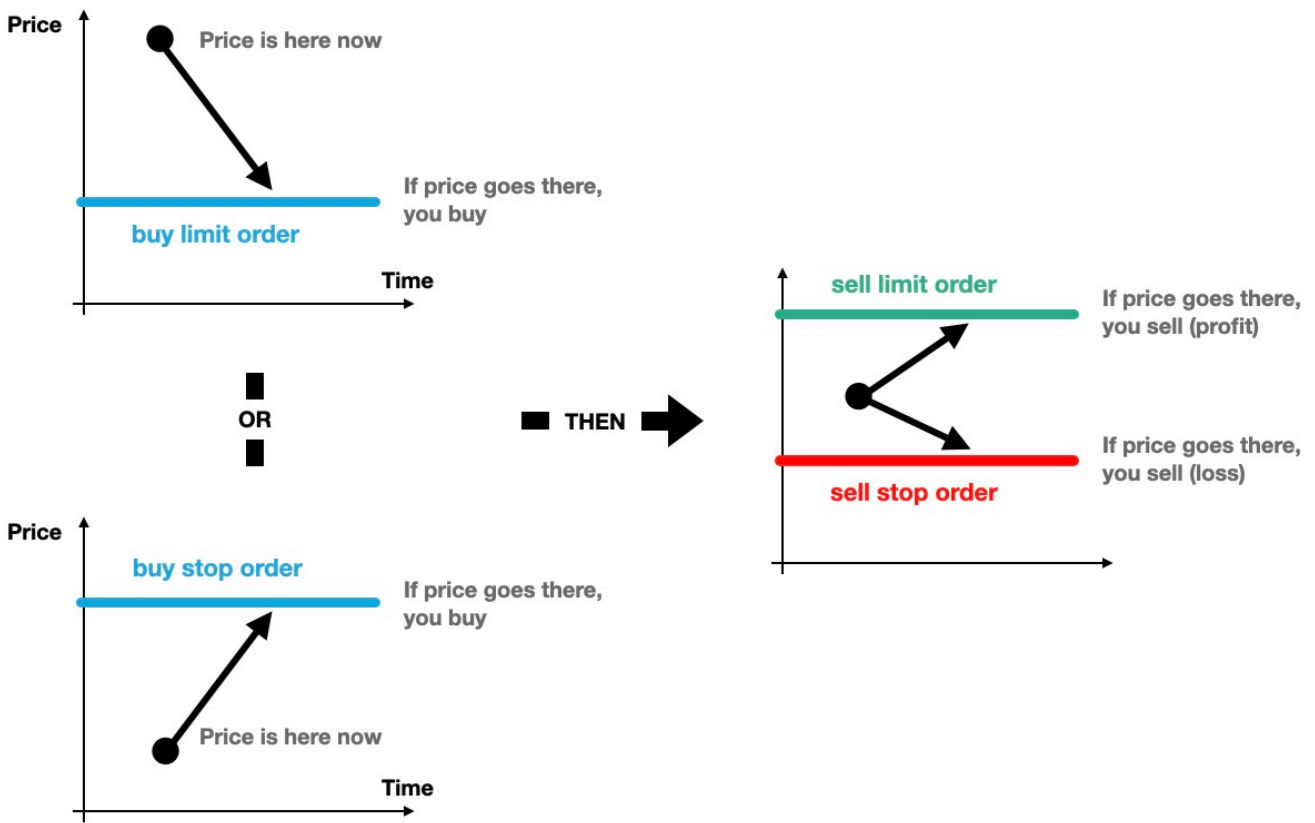
Summary:

Buy limit order = highest price you would pay

Sell limit order = lowest price you're willing to sell for if price goes up

Sell stop order = price you're willing to sell for if things don't work out

i Note: Any buy limit order placed above the current price will be executed immediately as a market order.

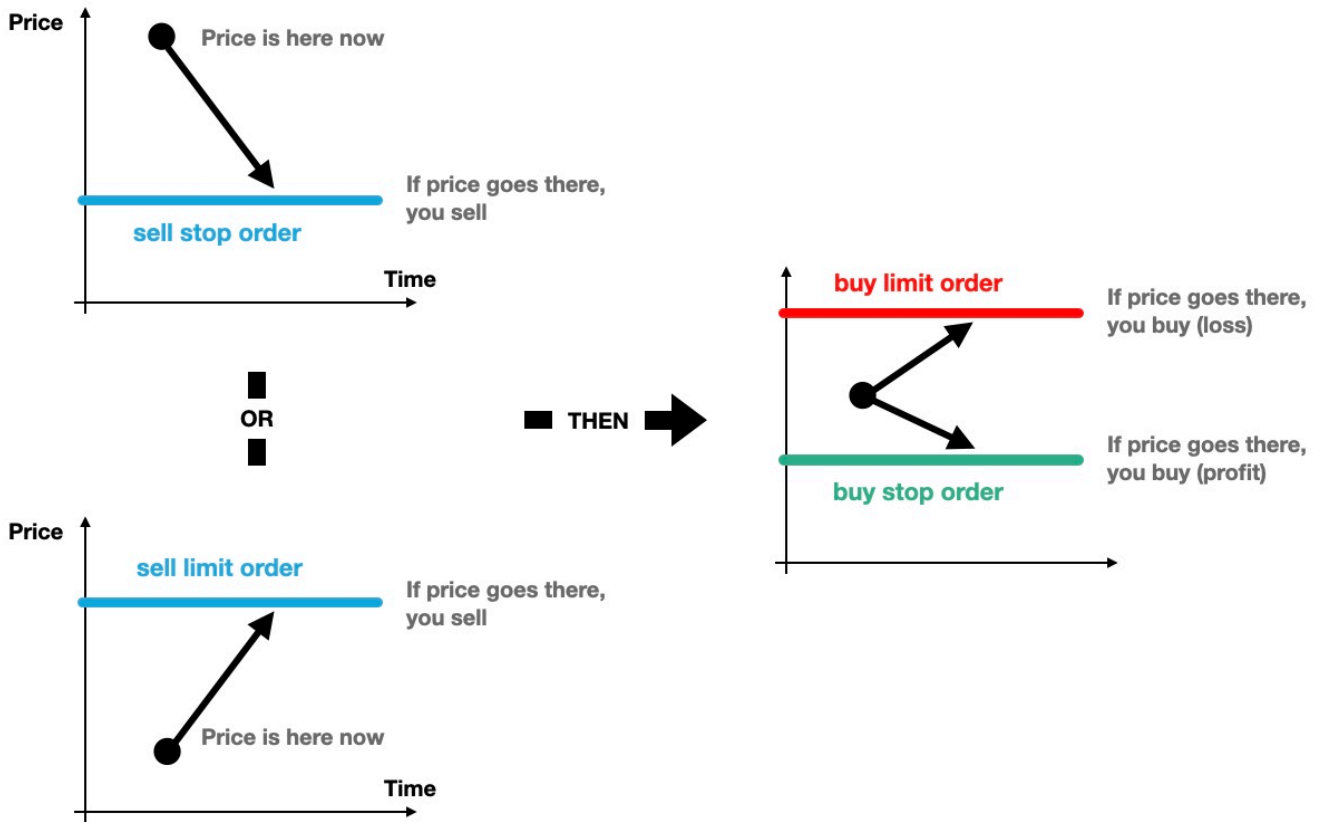


@samhickmann

Shorting a stock

Now that you've mastered these kinds of orders, turn everything around. You can bet on a stock's decline and profit by shorting it.

The terminology changes a little bit. You open your trade by “selling short” and you close your trade with a “buy to cover”.



@samhickmann

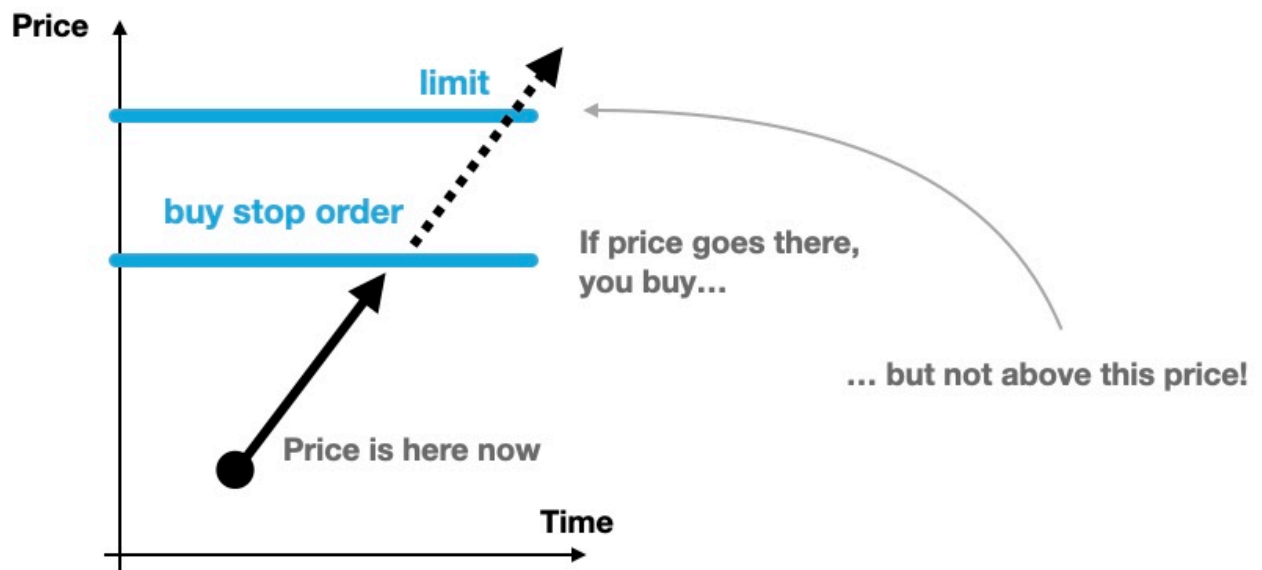
Other order types

In rare occasions, we use **market orders**. A market order is executed immediately at whatever price it can be filled at. We don't recommend using market order when day trading as it can lead to a lot of slippage.

Stop limit orders are an additional option. When the spread is crucial and you don't want to overpay in case the price climbs extremely quickly, they come in helpful.

Example: Buy 1,000 shares if price goes above \$10 but not above \$10.10

i Note: when using stop limit orders, your order might not be filled entirely.



@samhickmann

Chapter 3 - layout, trading platform, placing orders

In this chapter we will talk about:

- my desk setup,
- my trading platform,
- my trading screen,
- internet connection,
- placing orders,
- tools

My desk setup

When day trading, it's important to monitor the market in real-time and receive alerts when breaking news occurs.

I recommend using many monitors even if you can get by with only one.

My trading section is in the middle, where I enter my orders and closely monitor a certain stock. I also monitor 48 additional stocks:



In the bottom left corner, I read articles, check my emails, or watch live videos. I have the news and the market depth (level 2) at the bottom center.

Many more environments are accessible via modern computers with monitors boasting unusual designs (square, ultra-wide, curved, and so on). You should try out a few different ones until you find one that works for your budget and room space.

You can use numerous tabs on a single screen if you don't have enough displays, but this is inefficient because you have to click on it each time to see what's going on; with multiple screens, your eyes will skim around swiftly.

My trading platform

The two main reasons why I have chosen not to utilize my broker's trading tool are the following:

1. It's not easy to switch softwares when you've become proficient at using one. This means that if you've been accustomed to using your broker's trading platform, making a switch will be a challenging process. What if you find that your broker is no longer reliable or is charging you more than you can afford?

2. Usually, the brokers' tools are less effective and handy than the one I use.

Tradingview

I was hooked after discovering TradingView.com. (I have no affiliation with them in any way.)

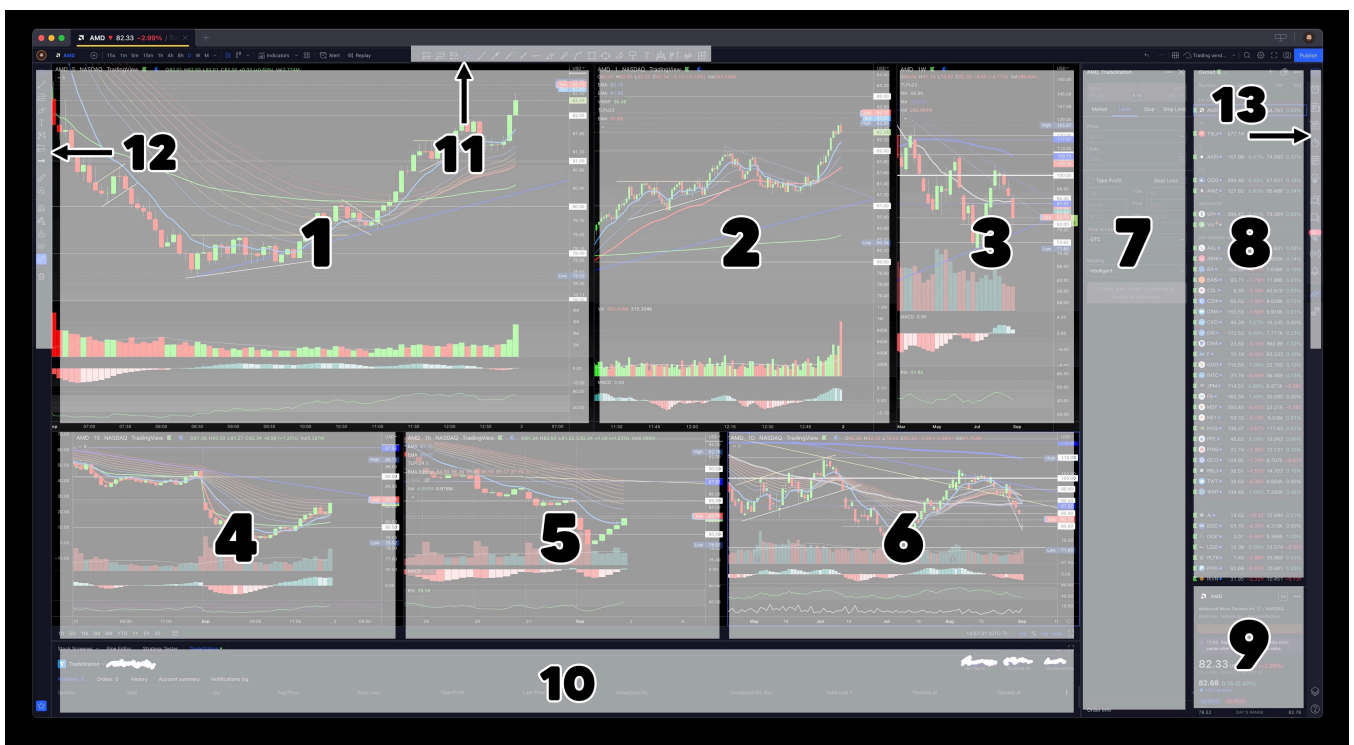
I can trade directly on TradingView because my broker is compatible.

Here's a quick rundown of why I love it:

- Web-based + desktop app + mobile app
- Best-in-class charts and chart indicators that are constantly updated
- You can customize and save different layouts that are synced with several displays and computers
- You can code and backtest your own indicators and strategies
- Extensive financial data
- News reader included
- Active community that generates indicators, strategies, ideas, and chats
- Scanners
- Advanced watchlists and heat maps
- There are several ways to enter trades, and they feature two of the best tools I've ever seen: the Long Position and the Short Position
- Excellent customer service

My trading screen

Before putting your money into a stock, you need to have a solid grasp of the ins and outs of the company. That's why I have several watchlists and six different timeframes on my primary trading screen, where I also keep up with breaking news.



Area 1: the five-minute timeframe. 5 minutes per candle. The primary chart is at the top, followed by the volume, the MACD, and the RSI in a four-panel layout.

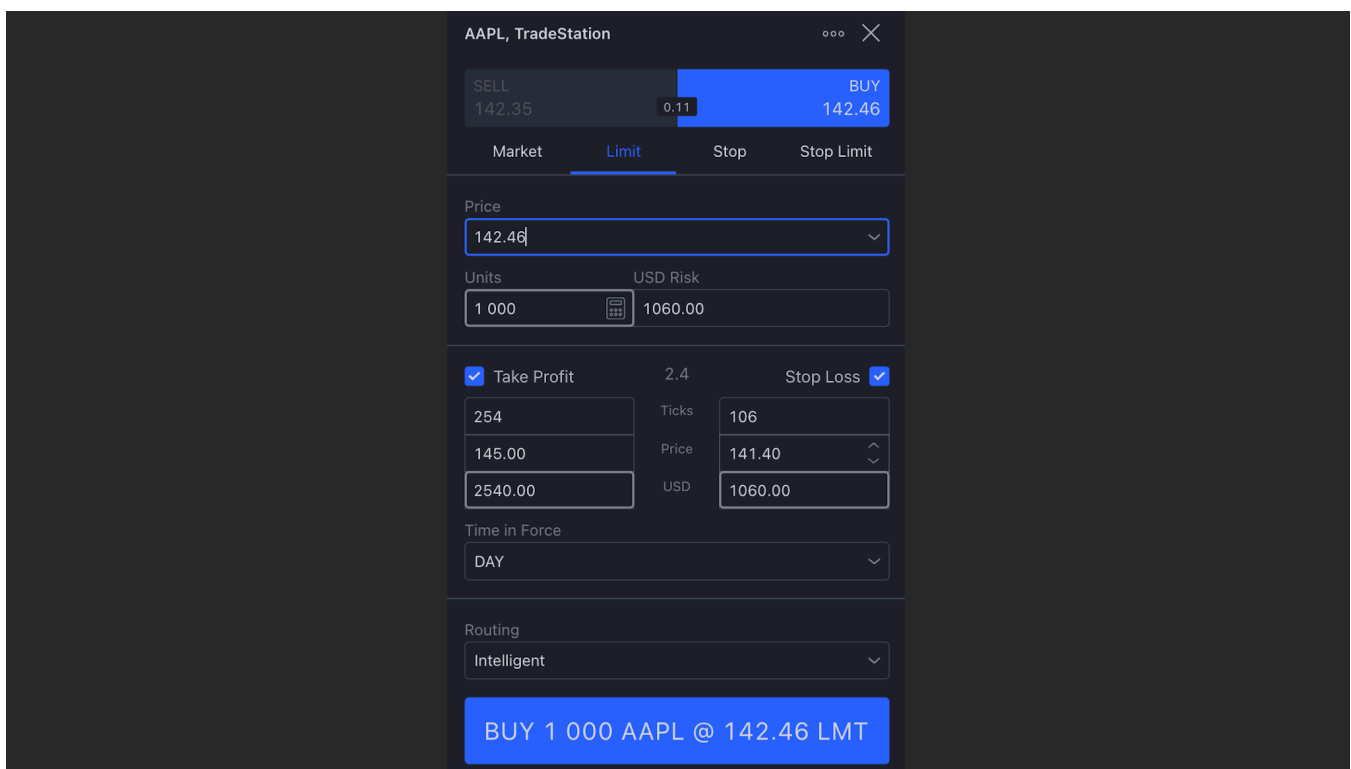
I've got five indicators on the chart: the 9-EMA, 20-EMA, VWAP, EMA Ribbon, and TLPv25, which was created by community member LonesomeTheBlue and can detect and draw trending lines and channels automatically.

Area 2, 3, 4, 5: With the same indicators as the 5-minute timeframe, the 1-minute, 1-week, 15-minute, and 1-hour timeframes.

Area 6: The daily timeframe. I have a chart with seven indicators at the top: the 9-EMA, the 20-EMA, the EMA ribbon, the 50 moving average, the 200 moving average, the volume, and the TLPv25. I've also MACD, RSI, and ATRP at the bottom.

👉 **Areas 1 to 6 can be resized by dragging the corners.**

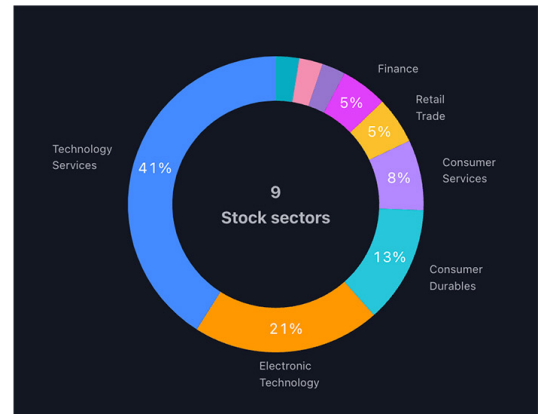
Area 7: This is the order panel. By using the Long Position tool and the Short Position tool, the order panel is automatically populated, then you can quickly adjust the sizing or the risk for instance (see 'Tools' section later in this chapter).



Area 8: My several watchlists

_Indices			
Symbol	Last	Chg	Chg%
FUTURES			
100 NQ1!	11203.50	-24.75	-0.22%
500 ES1!	3648.50	-5.75	-0.16%
INDEXES			
100 NDX •	11164.78	-329.05	-2.86%
500 SPX •	3640.46	-78.57	-2.11%
30 DJI •	29225.62	-458.13	-1.54%
P PCC •	1.127	0.015	1.34%
N NDX/S •	3.07	-0.02	-0.77%
500 US500	3634.3	-10.2	-0.28%
2000 US200C	1673.1	-5.7	-0.34%
40 CAC40 ^E	5676.870	-88.140	-1.53%
ETF			
QQQ •	271.87	-8.07	-2.88%
SPY •	362.79	-7.74	-2.09%
DIA •	292.21	-4.52	-1.52%
RSP •	128.68	-2.48	-1.89%
S5TF ^E •	11.72	-2.99	-20.33%
M MMF ^E •	11.97	-3.62	-23.22%
M M2SL ^E	21711.4	1.8	0.01%
U US10Y-	0.442	-0.018	-3.91%
U US10Y-	-0.427	-0.018	-4.40%
U US30Y/I	0.924	-0.004	-0.45%
F FEDFL ^E	2.33	0.65	38.69%
US30Y	3.725	-0.004	-0.11%
US10Y	3.794	0.004	0.11%
US05Y	4.033	0.014	0.35%

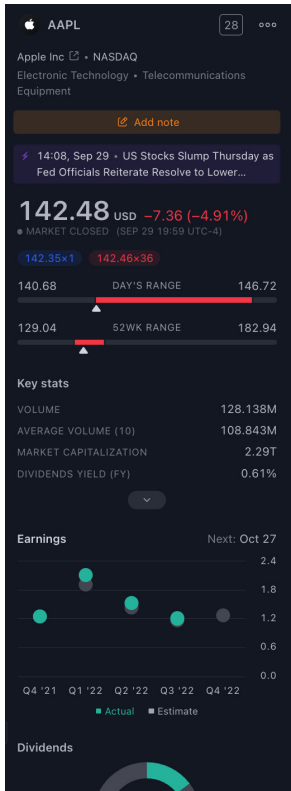
11 S&P sectors			
Symbol	Last	Chg	Chg%
S5COI •	1143.24	-39.96	-3.38%
S5COI •	708.44	-11.84	-1.64%
S5HLT •	1431.46	-13.26	-0.92%
S5IND •	709.86	-13.25	-1.83%
S5INF •	2121.08	-59.81	-2.74%
S5MA •	429.26	-6.68	-1.53%
S5REA •	223.71	-6.64	-2.88%
S5TEL •	164.74	-4.18	-2.47%
S5UTI •	339.18	-14.42	-4.08%
SPF •	509.97	-6.40	-1.24%
SPN •	557.61	-0.72	-0.13%



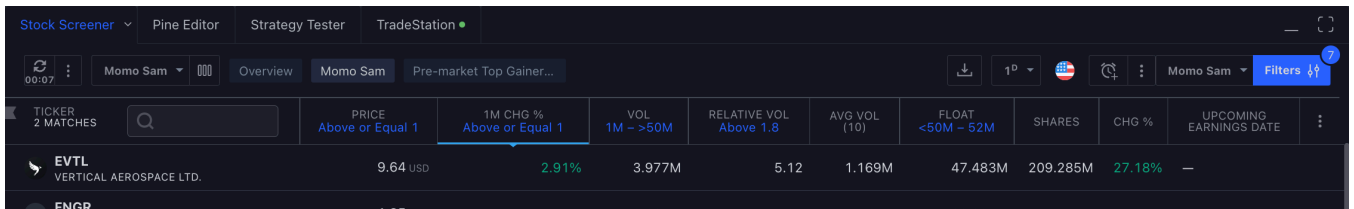
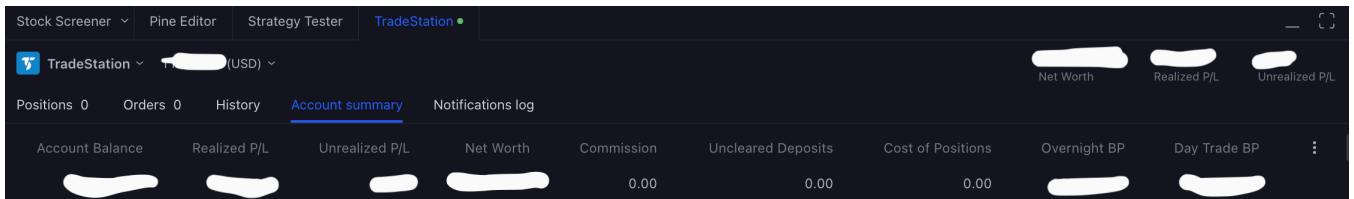
SaaS			
Symbol	Last	Chg	Chg%
ADBE •	278.25	-3.15	-1.12%
AI •	12.34	-0.62	-4.78%
ALRM •	64.92	-0.47	-0.72%
APPF •	109.40	4.30	4.09%
APPN •	41.15	-1.81	-4.21%
ASAN •	22.24	-0.76	-3.30%
AYX •	57.28	-2.21	-3.71%
BAND •	11.41	-1.14	-9.08%
BCOV •	6.40	-0.06	-0.93%
BILL •	135.22	1.54	1.15%
BL •	60.27	-0.16	-0.26%
BLKB •	45.07	0.24	0.54%
BNFT •	6.36	-0.22	-3.34%

Owned			
Symbol	Last	Chg	Chg%
4			
AAPL •	142.48	-7.36	-4.91%
TSLA •	268.21	-19.60	-6.81%
2			
AMD •	64.14	-4.22	-6.17%
MSFT •	237.50	-3.57	-1.48%
GOOG •	98.09	-2.65	-2.63%
AMZN •	114.80	-3.21	-2.72%
QQQ •	271.87	-8.07	-2.88%
75% REQ			
TQQQ •	20.39	-1.88	-8.44%
SQQQ •	58.15	4.47	8.33%

Area 9: Key stats and financials on the currently displayed stock, breaking news, and personal notes.



Area 10: The link between my broker, my net worth, my realized profit and loss (P/L) on the day, my open trades, history, account summary, etc. To facilitate quick access to the stock screeners, coding editor (Pine Script), and a strategy tester, this panel includes 4 tabs.

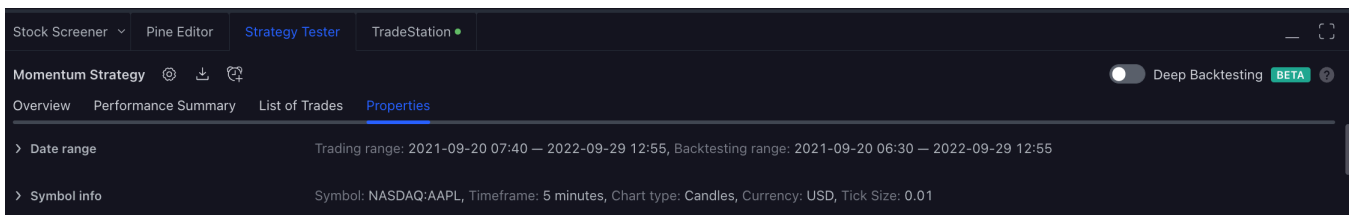


Gap up v2 144.0

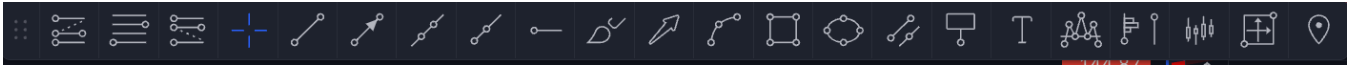
```

1 // This source code is subject to the terms of the Mozilla Public License 2.0 at https://mozilla.org/MPL/2.0/
2 // © samhickmann.
3
4
5 //@version=4
6 study("Gap Up v2", overlay=true)
7
8 // Make input options that configure backtest date range
9 startDate = input(title="Start Date", type=input.integer)

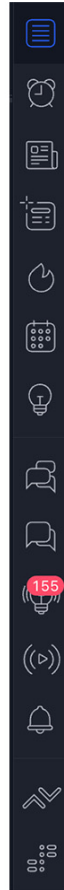
```



Area 11: A toolbar with shortcuts to my favorite overlaying tools (see 'Tools' section later in this chapter)



Area 12: A toolbar with all the available overlaying tools.



Area 13: This toolbar controls area 7, 8 and 9. I like to switch between my watchlists, the news, and the overall market.

Next to my main trading screen is a second screen that I've split in half so that level 2 can be seen on the left and breaking news can be seen on the right. Both of these are connected to the main screen stock I'm trading.

Level 2 data (also called market depth) is not a major component of my trading style or strategy. But if you want to day trade small-cap stocks, level 2 is essential.

Level 2

While TradingView does provide a market depth view, I find that the one provided by my other broker, e-trade, to be more flexible.

Bid prices and sizes are displayed on the left side of Level 2, while Ask prices and sizes are displayed in the second column. This is the order book.


Symbol	News	Last Tr...	\$ Chg. ...	% Chg. ...	High	Low	Tot. Vo...	Exchan...
AMD	NEWS	81.92	-7.38	-8.26	86.73	81.62	62,69...	Q

MMID	Bid	Size	MMID	Ask	Size
NSDQ	81.90	227	MPE	81.91	100
MMX	81.89	100	EDGX	81.91	100
ARCA	81.89	200	ARCA	81.91	100
EDGX	81.89	200	AMEX	81.91	500
IEX	81.89	300	IEX	81.91	200
NSDQ	81.89	300	MMX	81.91	300
MPE	81.89	100	BATS	81.91	200
NSDQ	81.88	200	NSDQ	81.92	498
BATY	81.88	100	BATY	81.92	100
BATS	81.88	100	BOSX	81.92	100
BOSX	81.88	100	NSDQ	81.93	344
NYSE	81.88	400	NSDQ	81.94	300
NSDQ	81.87	634	NYSE	81.95	400

Then, to the right, you'll see the tape, which displays the current trades as they occur. The tape represents the level 1 and is used to draw the charts.

Last	Size
81.92	100
81.928	500
81.925	2000
81.92	100
81.9299	1000
81.9101	1300

Be aware that the sizes are given in hundreds. If you see 200, this indicates a transaction of 20,000 shares.

 **Note: TradingView displays the spread together with the most current bid and ask prices on the chart. It's a helpful feature to have, especially if you trade small caps that come from the scanner but which you are not very familiar with.**

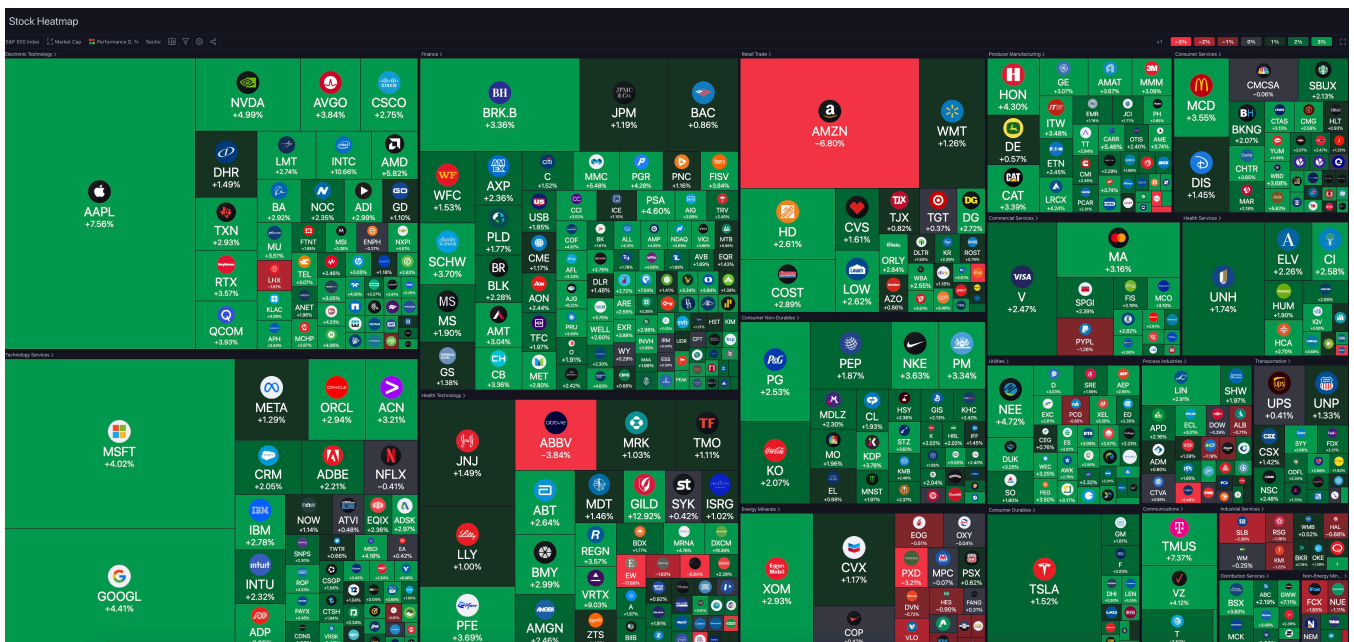


Keeping an eye on other stocks



Eight distinct stocks (on the 5-minute timeframe) are displayed on each of my six displays dedicated to monitoring. The charts' indicators include VWAP, TLPv25, 9-EMA, and 20-EMA. RSI and MACD are displayed beneath each stock. I can quickly keep an eye on 48 stocks.

... and because I'm a geek, I also have a TV screen that displays a heat map of the market!



Internet connection

It should go without saying, but you need a reliable internet connection. More than 50Mbps is recommended.

LOSERS GUIDE TO ONLINE TRADING

I'VE DECIDED TO HANG IN FOR THE
LONG TERM — MAYBE EVEN ALL DAY!



Placing orders

A very quick method of simultaneously putting a buy order, target, and stop loss is provided by TradingView. It is not only quick, but also visually appealing and effective.

Although it also provides keyboard shortcuts and more conventional methods, I strongly advise using this visual tool. It is called "Long Position."

It does numerous tasks concurrently:

Sizing of the trade

Determining the maximum amount you are willing to lose in the event that a trade goes against you is vital when day trading.

Say you want to buy a stock at \$50. Based on the chart, you think the price will go up, but if it goes the opposite way and breaks the support at \$47, you infer that the pattern is invalidated and that the trade is unsuccessful. You are okay with losing \$500 on the trade. It is known as the Risk (R).

Meanwhile, if the trade is successful, you expect winning \$1,000 (a 1:2 risk-reward ratio)

The formula to determine how many shares you need to purchase is as follows:

$$Risk = Quantity \times (Acquisition\ Price - Sell\ Price)$$

$$Quantity = Risk / (Acquisition\ Price - Sell\ Price)$$

$$Quantity = \$500 / (\$50 - \$47)$$

$$Quantity = 166$$

The formula to determine the price target to earn \$1,000 is as follows:

$$Win = Quantity \times (Price\ Target - Acquisition\ Price)$$

$$Price\ Target = (Win + (Quantity \times Acquisition\ Price)) / Quantity$$

$$Price\ Target = (\$1,000 + (166 \times \$50)) / 166$$

$$Price\ Target = \$56.02$$

With the "Long Position" tool, these calculations are automatic, as well as the 3 orders: buy, target, stop loss.

Placing orders with the Long Position tool in Tradingview

Example on Apple (\$AAPL), we will:

- create a buy stop order at the breakout of the bull flag's resistance above VWAP and 9EMA,
- with a stop loss below the support line for a total loss of \$1,000 (the risk),
- and a target at 2 times the risk for a profit of \$2,000.

This is how we do it:

1. Select the Long Position tool in the tool bar.
2. Click on the chart at \$142.01.
3. Align the bottom to \$141.25.
4. Move the top until you see 2 in the center.
4. Right click and select "Create limit order".
5. Click on "Stop" in the order panel.
6. Click the blue button on the order panel.

Done! The tool has automatically calculated that you need to buy 1,394 shares of Apple, sell them at \$143.54 to make a profit of \$2,000, or sell them at \$141.25 to limit your loss to \$1,000.

In addition, all the orders have been entered into the system. The buy order will be executed if the price breaks the resistance line of the bull flag, at \$142.01.



💡 **Note:** The very first time you use it, you must set up the tool so that it is aware of your \$1,000 maximum loss (Risk). To do this, simply double-click on the tool, select "Inputs", enter "1000," and then select "USD." This Risk will be kept for your upcoming trades.

Long Position ✎
✕

Inputs Style Visibility

Account size USD

Lot size

Risk ⬆️ ⬇️ ⬇️ ⬆️ USD ⌵

Entry price

PROFIT LEVEL

Ticks

Price

STOP LEVEL

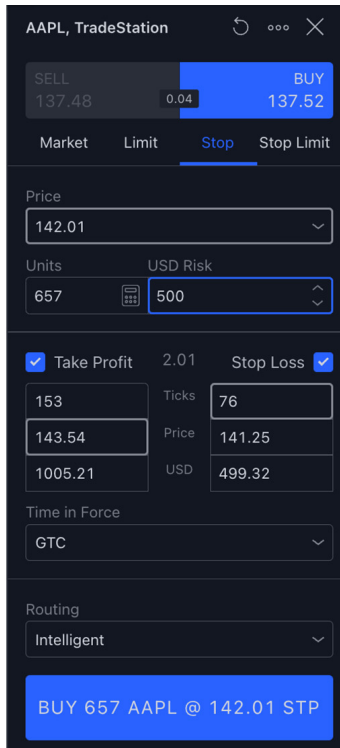
Ticks

Price

Template ⌵

Cancel
Ok

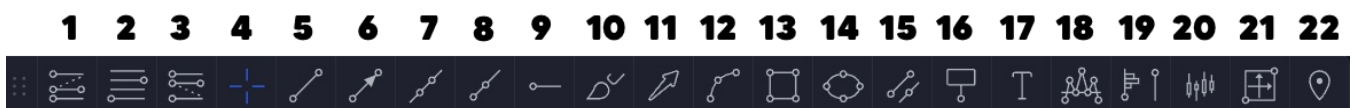
You can enter the "temporary" risk value at step 5, in the order panel's "USD risk" field, if you need to take another trade with a different risk but don't want to alter the default value of \$1,000.



Tools

On Tradingview, there are countless tools of all kinds. Fortunately, you can mark your favorites by simply clicking the star next to the names of the ones you use frequently.

My favorite tools are on this toolbar:



1. Long Position

I place my trades on the long side using the earlier-mentioned tool.

2. Fib Retracement

This tool, which is named after the Fibonacci number sequence, displays significant levels of retracement. For instance, the best risk/reward ratio is frequently achieved when you enter the trade in between a 61.8% and a 65% retracement, after a downturn on a bullish trend. It is referred to as the golden pocket.



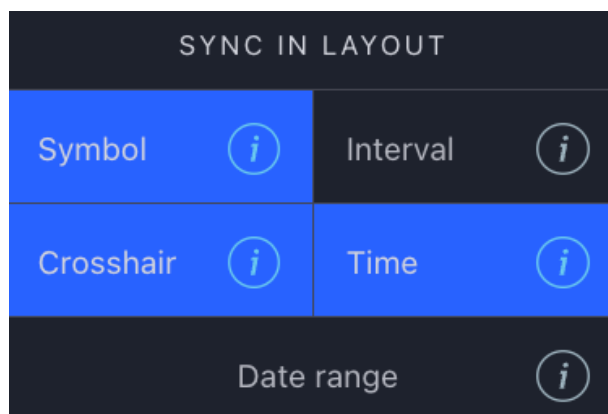
3. Short Position

A tool for the short side that is comparable to the Long Position tool.

4. Cross

This is the default pointer.

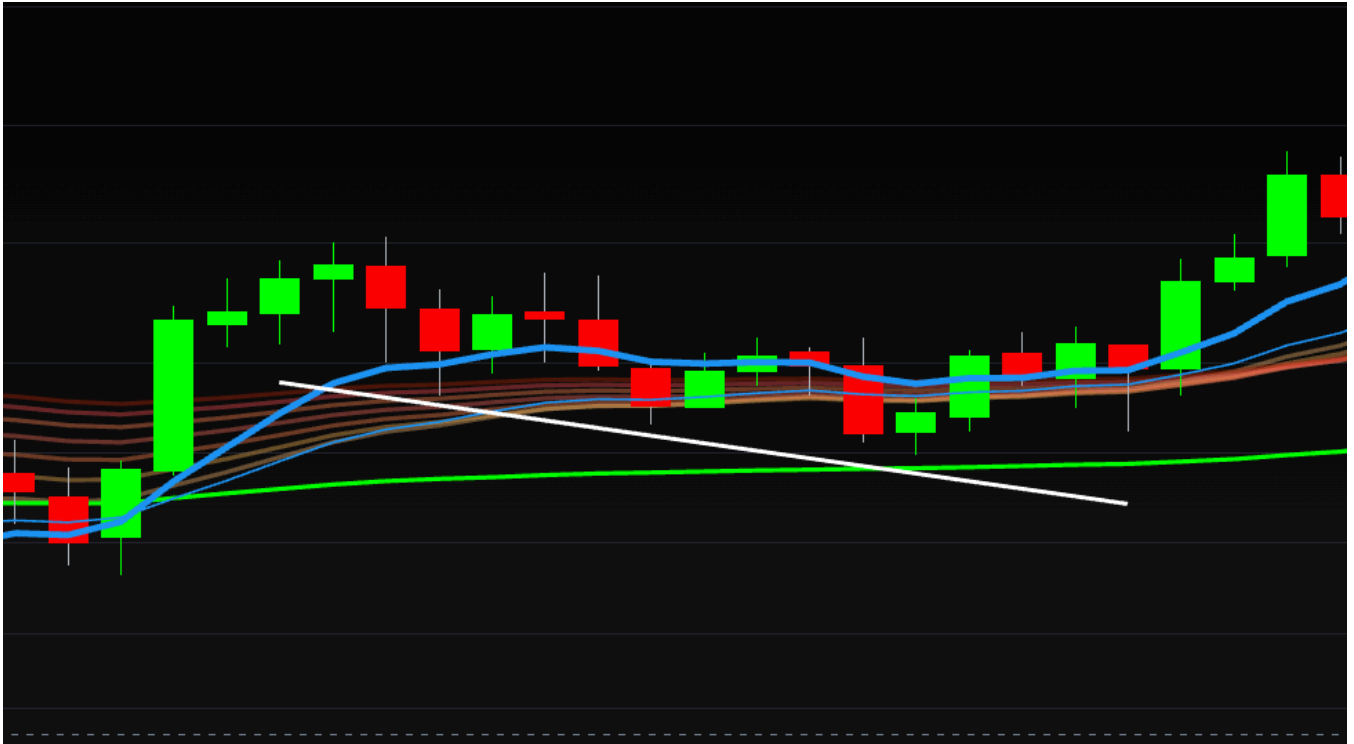
If you have selected "Crosshair" in the layout options, then all your charts will show their price at the same time.



5. Trend Line

The tools known as the trend line, arrow, ray, extended line, and horizontal ray are essentially the same. They are helpful for indicating resistance and support.

I use this tool with the white color to show supports.



6. Arrow

I use Arrow, that I have set up in yellow, to show the resistances, usually on timeframes below the 1 hour.



7. Ray


Ray is redundant with arrow, the only difference is that the line never ends. I use it to show resistances on a long timeframe.

8. Extended Line

Same goes for Extended Line that I use to show support on long timeframes

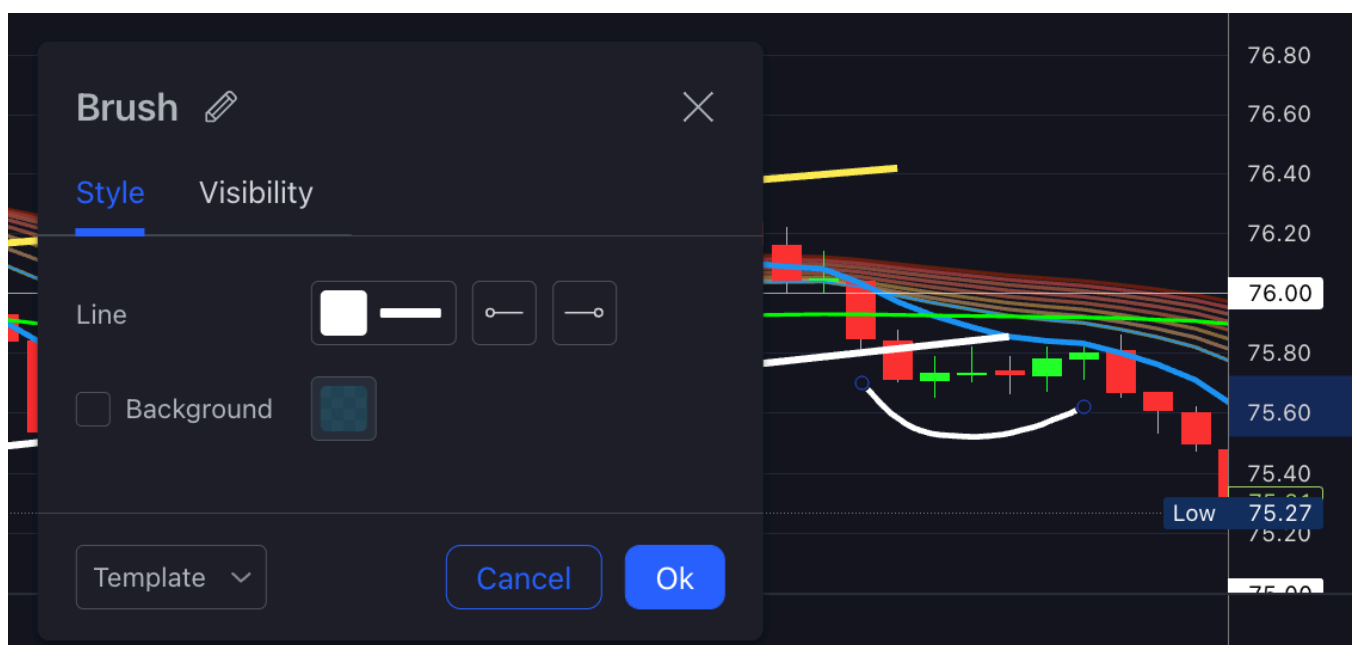
9. Horizontal Ray

With blue chips, I typically use Horizontal Ray to display significant price levels every \$10, and with small caps, every \$1.

 **Note that I also use Horizontal Ray to display my orders, entry, targets, and stop-losses when swing trading (over a period of several days or weeks), even though that is not the theme of this book.**

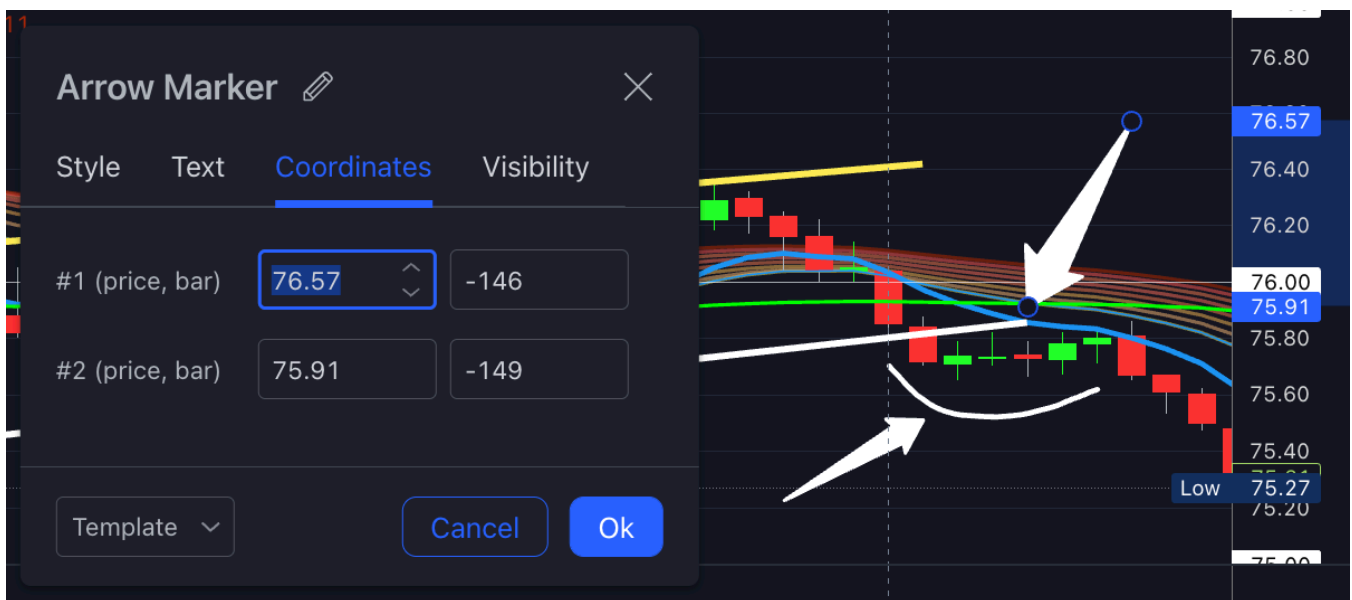
10. Brush

I use brush to draw on the chart. For instance when I explain something to someone, or when I want to highlight a pivot point, I will draw a circle.



11. Arrow Marker

The arrow and Brush go well together. I can rapidly use a large white arrow to point at something.



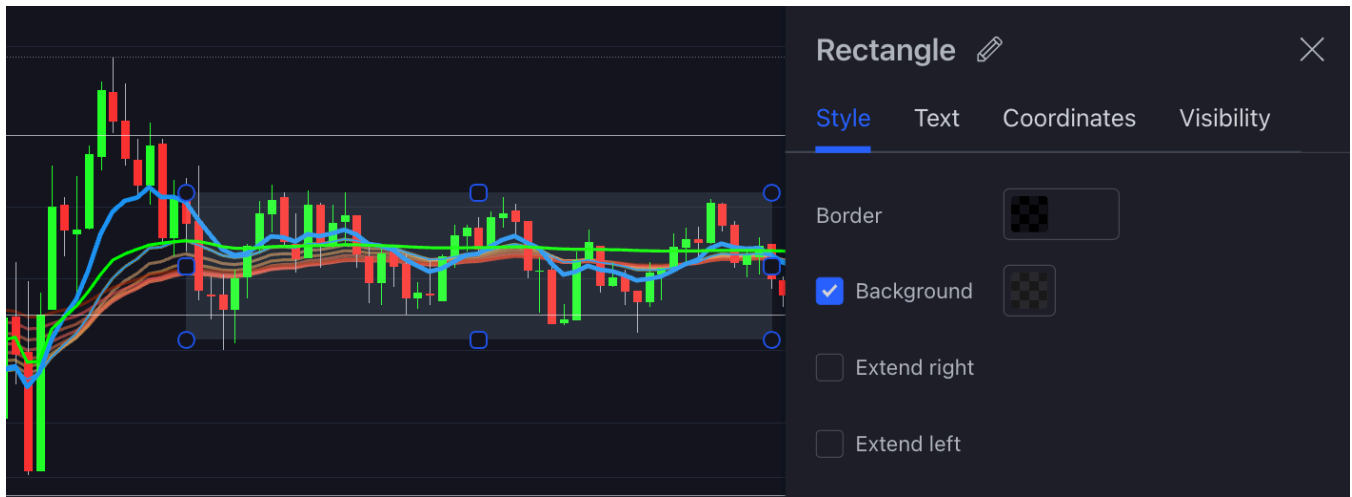
12. Curve

Although I don't typically use this tool, occasionally you can locate a cup and handle pattern. On day trading, it's uncommon. I like to use the Curve to illustrate them when I see them.



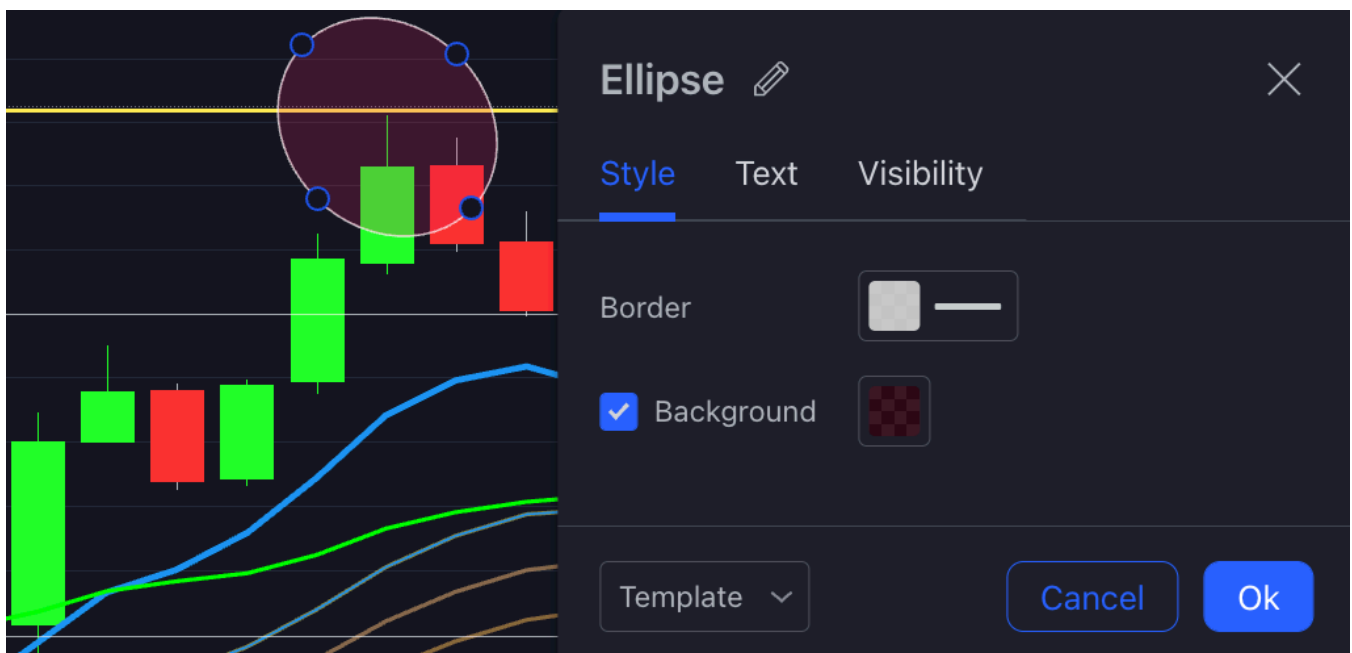
13. Rectangle

When there is sideways price action or a gap on the daily timeframe, I use Rectangle.



14. Ellipse

I use Ellipse to draw a circle around a pivot.



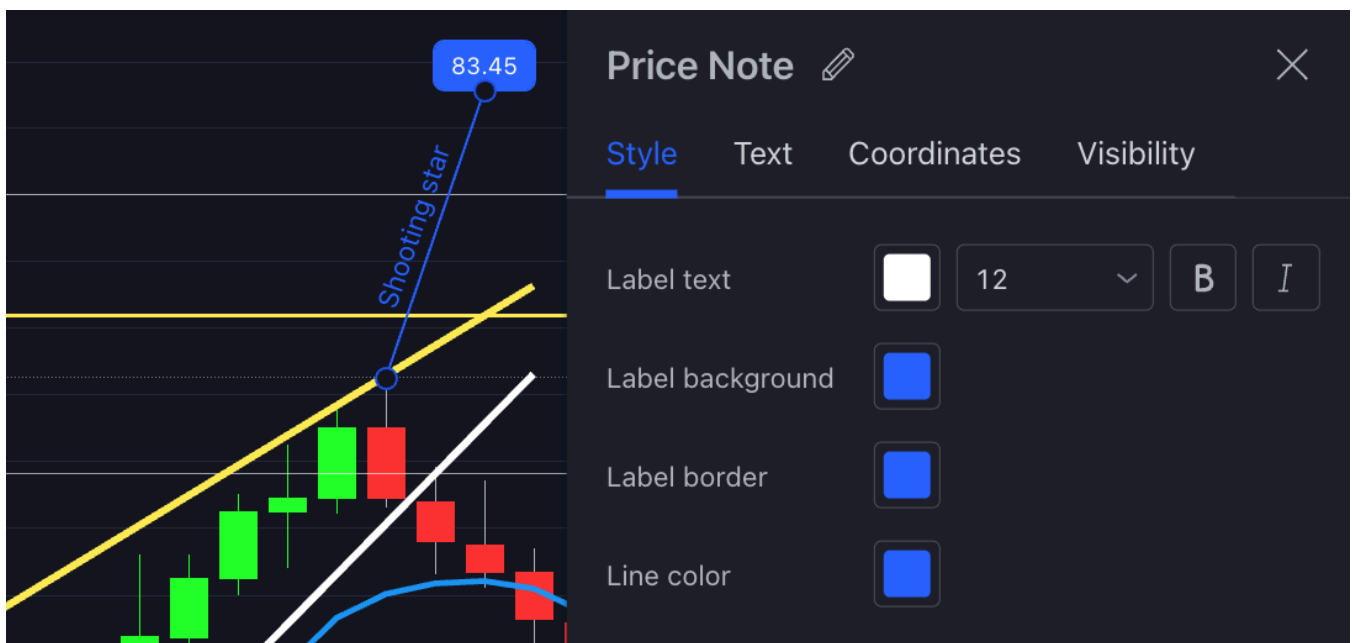
15. Parallel Channel

I use Parallel Channel, which is configured in blue, on a daily/weekly timeframe. Apple stock, for example, typically remains on a channel for years. It's a good entry place when we're about to touch one of the sides.



16. Price Note

Price Note plots the price exactly where you click. I don't use it often but it is useful to show a specific event, in complement with Text described below.



17. Text

I use Text with other tools to document all sorts of things on my charts.



18. Head and Shoulders

Head and shoulders is a pattern that is uncommon throughout the day, much as cup and handle. It's a long timeframe pattern. However, I like to use this tool to show an H&S when it occurs inside a 5-minute timeframe.



19. Fixed Range Volume Profile

Due to the fact that it is more applicable on longer timeframes, I don't use this tool frequently when day trading. But it's still interesting. It provides you with the price point (Point of Control, or PoC) with the highest volume of traded activity for the chosen timeframe.



20. Bars Pattern

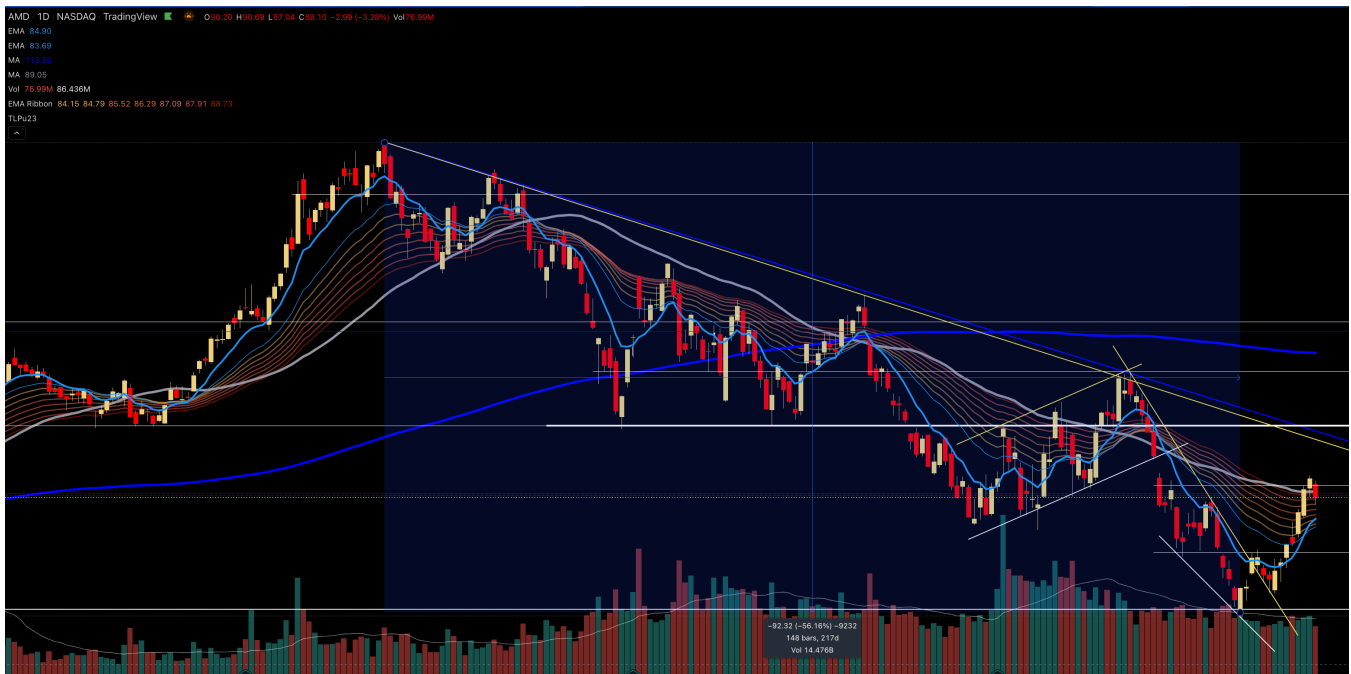
Multiple candles can be copied and pasted with this tool. When you notice a pattern and want to illustrate what you anticipate happening, it can be helpful.

Example:



21. Date and Price Range

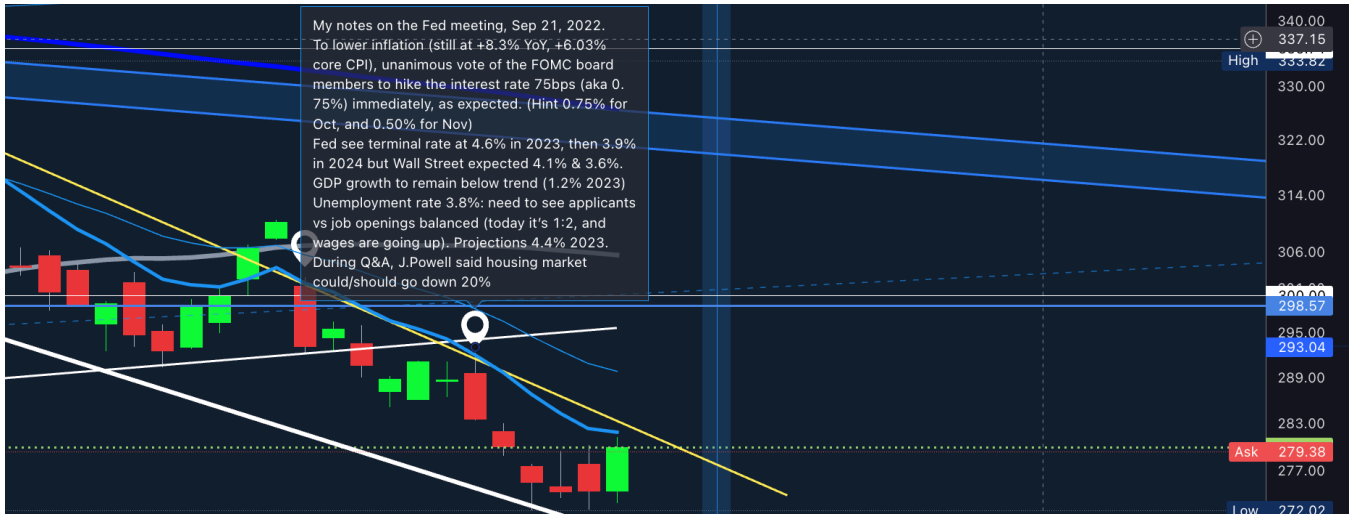
With the use of this tool, measurements can be made quickly over periods. For instance, with a volume of nearly 15 billions, this stock lost 56% during the course of 217 days.



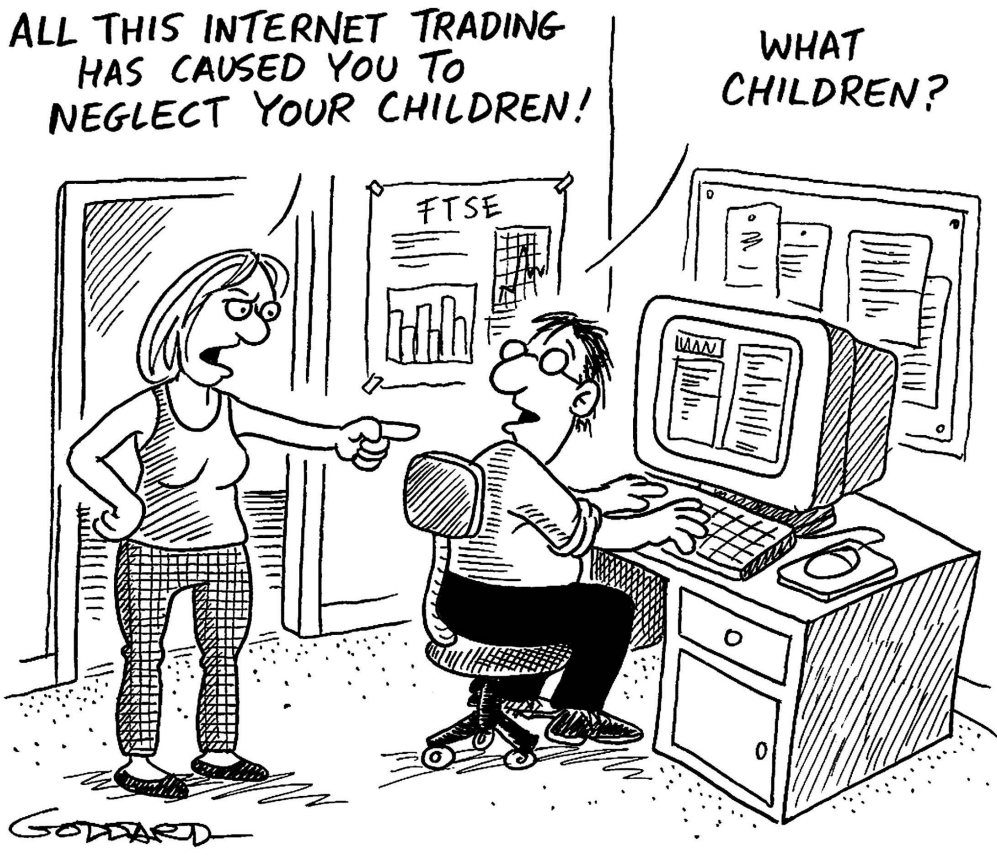
i It should be noted that if you hold down the Shift key while clicking on the chart, you can get similar information, but it will disappear as soon as you click somewhere else.

22. Note

Whenever important data come up, I mark them on the chart with different colors (white for CPI data, red for FED, yellow for jobs reports, etc).



LOSERS GUIDE TO ONLINE TRADING



Chapter 4 - Choosing The Best Stocks for Day Trading

I began day trading with small caps as they cost less, but I now choose blue-chip stocks since they are safer, more predictable and easier to borrow and short.

Blue-chip stocks

Here are my guidelines:

- high daily volume,
- relative volume higher than average,
- high ATR (average true range) / volatility,
- tight spread,
- 1:4 leverage ratio (25%),
- easy to borrow,
- bonus: a breaking news.

If you trade small caps, you need a low float, and you should be cautious if they have filed a Securities and Exchange Commission (SEC) Form S-1 or S-3. A Form S-1 is the registration statement that domestic issuers must file with the SEC in order to publicly offer new securities. In other words, S-1s are filed by issuers for initial public offerings (IPOs) and follow-on offerings of new securities. Form S-3 is used to issue shelf offerings. That is, the issuer may issue a portion of

the securities when filing the core prospectus and the remainder later without filing a new prospectus.

It matters because the share price can suddenly plummet if a company releases a flood of new stocks onto the market.

At the time this book was written, \$AMD was a good blue chip stock to day trade.

On a daily basis, it has an 85M volume.

Every day, the relative volume increases slightly.

The average true range (ATR) is 10, and the average true range as a percentage (ATRP) is 12.

The spread is \$0.01.

Leverage is 4x, allowing you to buy \$100,000 in AMD with just \$25,000.

Borrowing is simple, and you can short it whenever you want.

I have about 50 stocks on my radar, and I can always day trade them with confidence.

Small caps scanner

Small caps make it challenging to maintain a watchlist. Since there is frequently insufficient volume and a wide spread, it is better to have a scanner to identify the ones to trade in quasi real-time.

I tried a few different scanners, but I kept coming back to the one offered by Tradingview. Although it's not perfect, it's decent. I receive a sound and a popup every time the scanner identifies a stock that meets my criteria, allowing me to conduct my due diligence and act quickly.

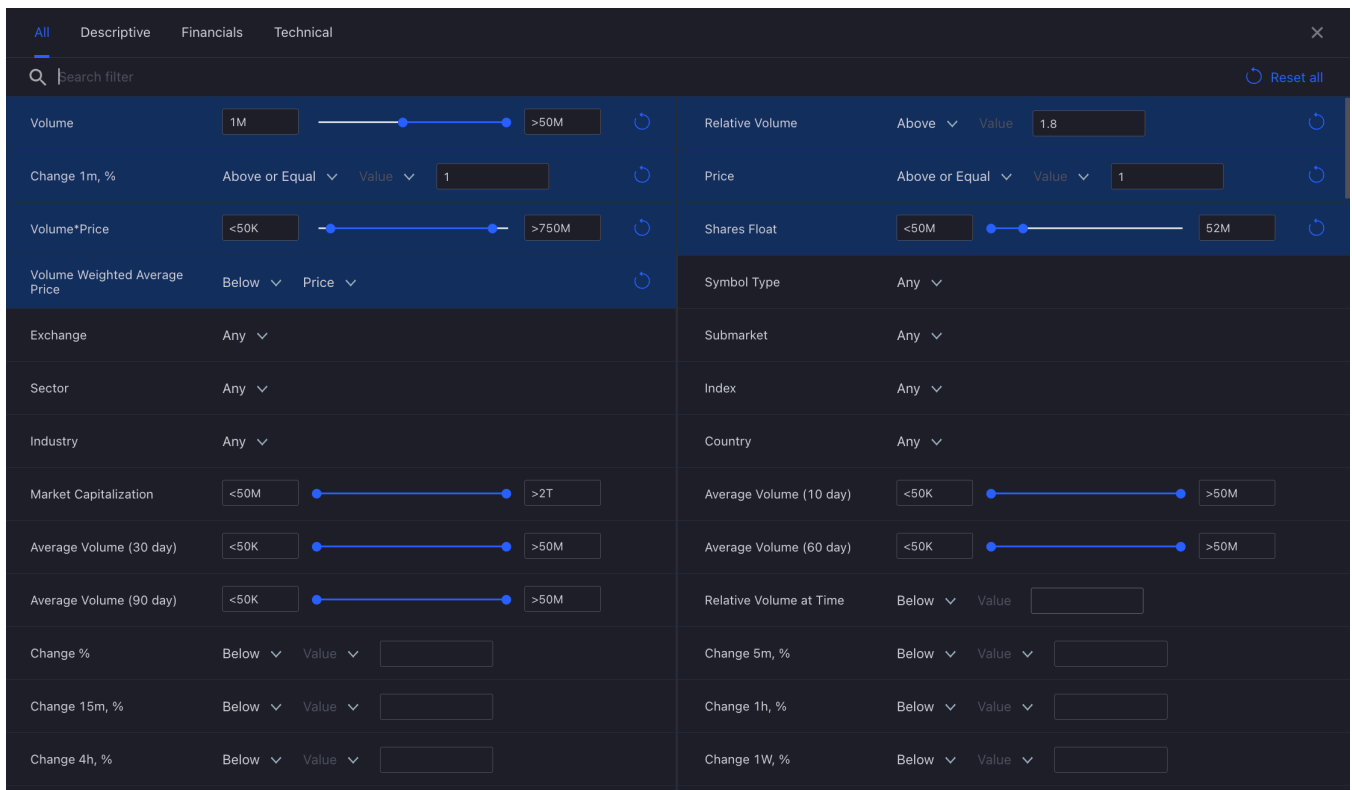
Here is how my momentum scanner for small caps is set up:

- Average daily volume above 1M

- Relative volume above 1.8
- Change in % on the 1-minute timeframe: above 1%
- Price above VWAP
- Price above \$1
- Shares Float below 52M (*a stock float is the total number of shares that are available for public investors to buy and sell*)

I never short small caps for 2 reasons:

- 1) they are usually hard to borrow,
- 2) a short squeeze can happen very quickly (*just watch “Eat the rich, the GameStop Saga” on Netflix...*)



My scanner scans the market every 10 seconds

TICKER	PRICE	1M CHG %	VOL	RELATIVE VOL	AVG VOL (10)	FLOAT	SHARES	CHG %	UPCOMING EARNINGS DATE
SPRO SPERO THERAPEUTICS, INC.	1.43 USD	1.44%	57.814M	Above 1.8	13.919M	<50M - 52M	35.068M	26.55%	2022-11-10
SJ SCIENJUY HOLDING CORPORATION	3.80 USD	1.33%	1.25M	2.87	542.13K	4.83M	39.548M	12.43%	—

and I can immediately make a quick due diligence and check the breaking news about the stock



Financials Spero Therapeutics, Inc.

Overview

Statements

Dividends

Earnings

Market capitalization
39.626M USD

Dividends yield (FY)
—

Price to earnings Ratio (TTM)
—

Basic EPS (TTM)
-3.48 USD

Income statement >

Annual Quarterly



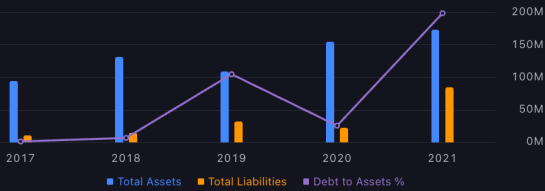
Dividends >

SPRO does not pay dividends

The company has not previously paid dividends and at the moment there is no information about whether it is going to pay them in the future

Balance sheet >

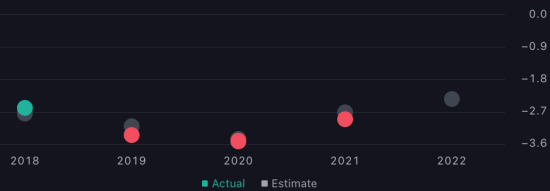
Annual Quarterly



Earnings >

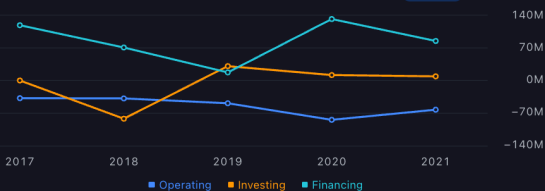
Next: Apr 03

Annual Quarterly



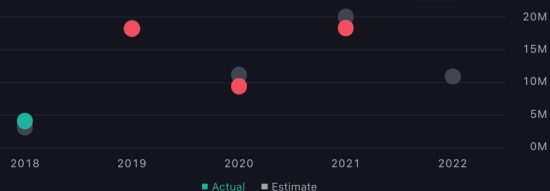
Cash flow >

Annual Quarterly



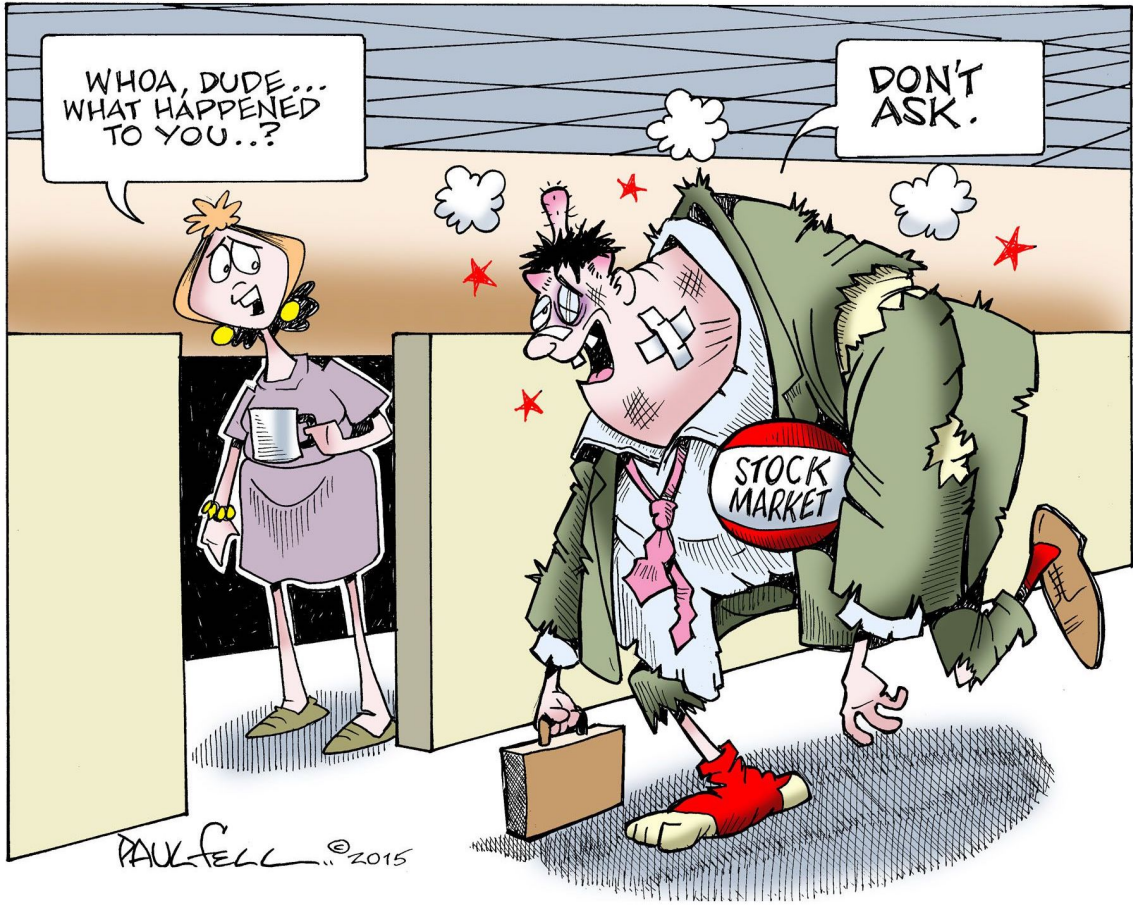
Revenue >

Annual Quarterly



and check the charts on different timeframes:





Chapter 5 - The Patterns

In this chapter, we will see:

- candlestick patterns,
- chart patterns,
- pattern stats and performances,
- entry/target/stop loss good practices

You should become familiar with the candlestick patterns before diving into the chart patterns.

Chapter 2 explained how to read a straightforward candlestick. A series of two or more candlesticks can provide you with a first layer of information and help in the identification of reversal patterns.

Before entering a trade and developing a strategy, you must be aware of and understand candlestick patterns and chart patterns.

Candlestick Patterns

Candlestick patterns should be interpreted as confirmation in a larger context. Particularly on timeframes less than 5 minutes, we never enter a trade simply because we have noticed a candlestick pattern.

It's only a sign, and you must first be familiar with candlestick patterns in order to comprehend and trade chart patterns.

I'll only talk about the most common ones.

One Candle Patterns



Marubuzu White



Hammer



Dragonfly Doji



Doji

@samhickmann

Marubuzu White

No wicks; wide body. As the lowest point was never below the open price and the highest point was never above the closing price, it indicates that the stock is very bullish over this timeframe. Most likely, if you zoom into a smaller timeframe, you will observe a series of green candles.

A Marubuzu Black is the opposite of a Marubuzu White.

Hammer

It is referred to as a hammer when the body is at the top without a topping tail. The opposite is a shooting star.

Dragonfly Doji

As we'll see in a moment, a dragonfly candle may suggest a reversal because during this time the price fell before turning around to close at the same level.

A Gravestone Doji is the reverse of a Dragonfly Doji.

Doji

A Doji denotes uncertainty. The stock price fluctuated downward, then upward (or upward, then downward), before returning to close at the opening price. If the body is larger, it is referred to as a spinning top.

Two Candle Patterns



Bullish Engulfing



Neutral patterns



Spinning Top

@samhickmann

Bullish Engulfing

When the second candle is green and bigger than the first red one, it means that the price first went down but rapidly turned around and went up. It is bullish.

A bearish engulfing pattern, which is the opposite of a bullish engulfing pattern, is made up of a smaller green candle and a larger red candle.

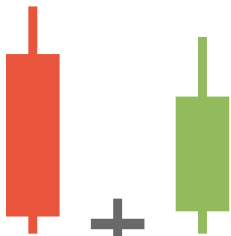
Neutral patterns

The juxtaposition of two Marubuzus, two spinning tops, or two Dojis indicates uncertainty. When we see these, we will never consider entering a trade.

Spinning Top

Two spinning tops or two Dojis are indicators of uncertainty.

Three or more Candle Patterns



Morning Doji Star



Three White Soldiers



Three Line Strike

@samhickmann

Morning Doji Star

The morning doji star suggests price support at the bottom and a potential upside reversal. This is bullish.

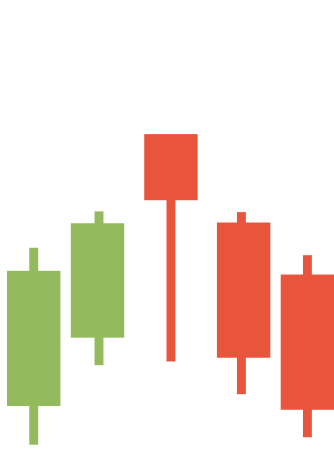
Evening Doji Star is the opposite of a morning Doji star.

Three White Soldiers

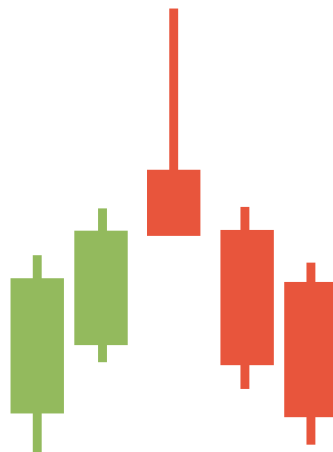
The three white soldiers are a bullish pattern, but they also excellently demonstrate why you should not only rely on candlestick patterns since they can result in a three line strike, which is a major bearish pattern.

Likewise, a bearish Three Black Crows might result in a bullish Three Line Strike.

Bullish: Hanging Man, Shooting Star, Gravestone Doji



Hanging Man



Shooting Star



Gravestone Doji

@samhickmann

While the shooting star and gravestone doji patterns are frequent, the hanging man pattern is uncommon. When these patterns are identified, you regret not making the trade sooner! It is unfortunately difficult to enter the trade prior to receiving confirmation of the reversal.

Bearish: Hammer, Inverted Hammer, Dragonfly Doji



Hammer



Inverted Hammer



Dragonfly Doji

@samhickmann

The hammer is signaled by a long bottoming tail and a short body atop (sometimes no body at all, called a dragonfly).


Green candles are occasionally followed by an upside-down hammer.


Chart Patterns

There are innumerable chart patterns. However, because I enter my trades on the 5-minute timeframe, I only see a fraction of them when day trading.

I like to group the patterns into these 5 groups:

- Symmetrical patterns
- Flat-top patterns
- Flat-bottom patterns
- Rising patterns
- Falling patterns

 **Note:** Once you have identified one of these patterns, it is crucial to check back in order to determine if a downtrend or an uptrend preceded it. I base my choice to enter the trade or not depending on the position of the price at the breakout in regard to the VWAP and 9EMA on the 5-minute chart (more on this on Chapter 6).

 **Attention:** When patterns start to form while you're trading, it's very important to wait for them to resolve before making a move. The more experienced you become, the more you'll be able to enter trades early, but please, don't do this too soon otherwise you'll be caught in some very bad trades.

What you thought was a bull flag forming may end up being a falling wedge with a breakout downward.

Note on Supports and Resistances

The price must touch a line at least twice before it becomes a support or resistance level.

i I always use yellow to draw the resistance lines, and white to draw the support lines.

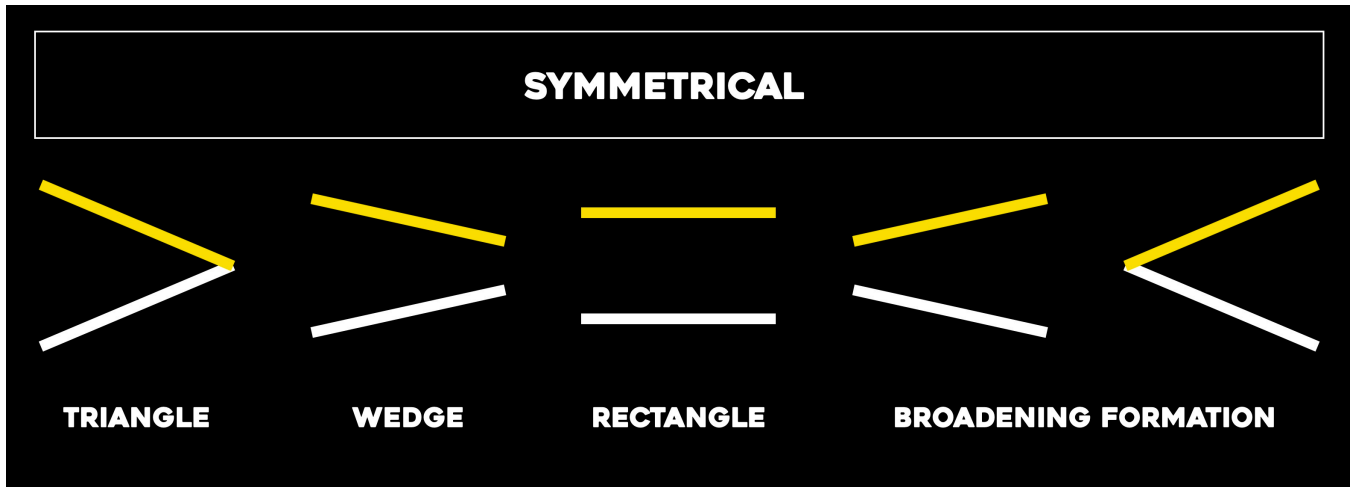
You must continually be aware of the important price levels, such as \$90, \$100, or \$150 if you trade blue-chip stocks (or \$1, \$2, \$3, ... if you trade small caps) in addition to trying to continuously identify chart patterns. These significant price levels might disrupt the pattern that is currently taking shape.

Additionally, a bigger pattern may also interfere with a smaller pattern. You need to look at the bigger picture (i.e. higher timeframe).

When I'm trading a particular stock, I always have 6 timeframes in front of me:



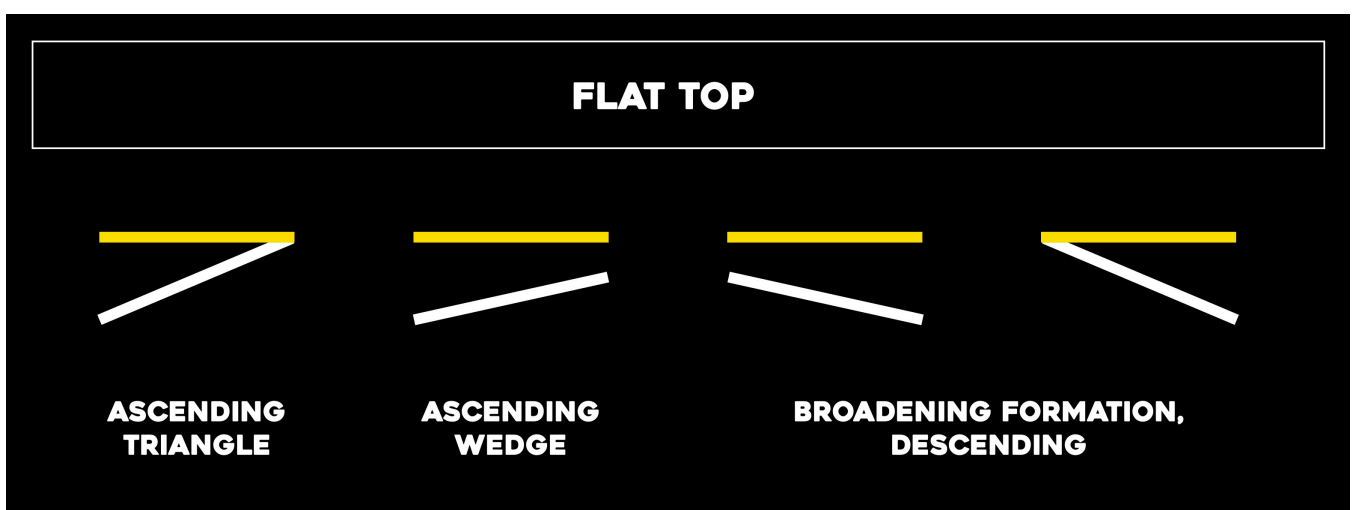
A. Symmetrical Patterns



Symmetrical Patterns are characterized by their symmetry. Triangles and wedges are very similar as their resistance and support lines converge, whereas rectangles have their support and resistance lines parallel. Broadening formations happen when resistance and support lines diverge.

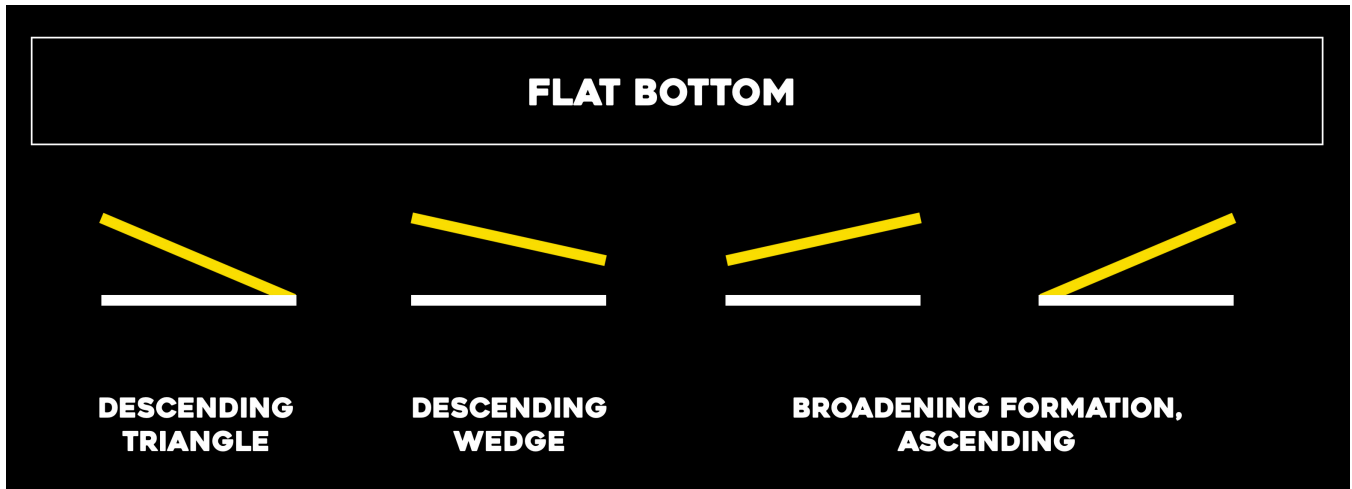
These patterns show indecision.

B. Flat-Top Patterns



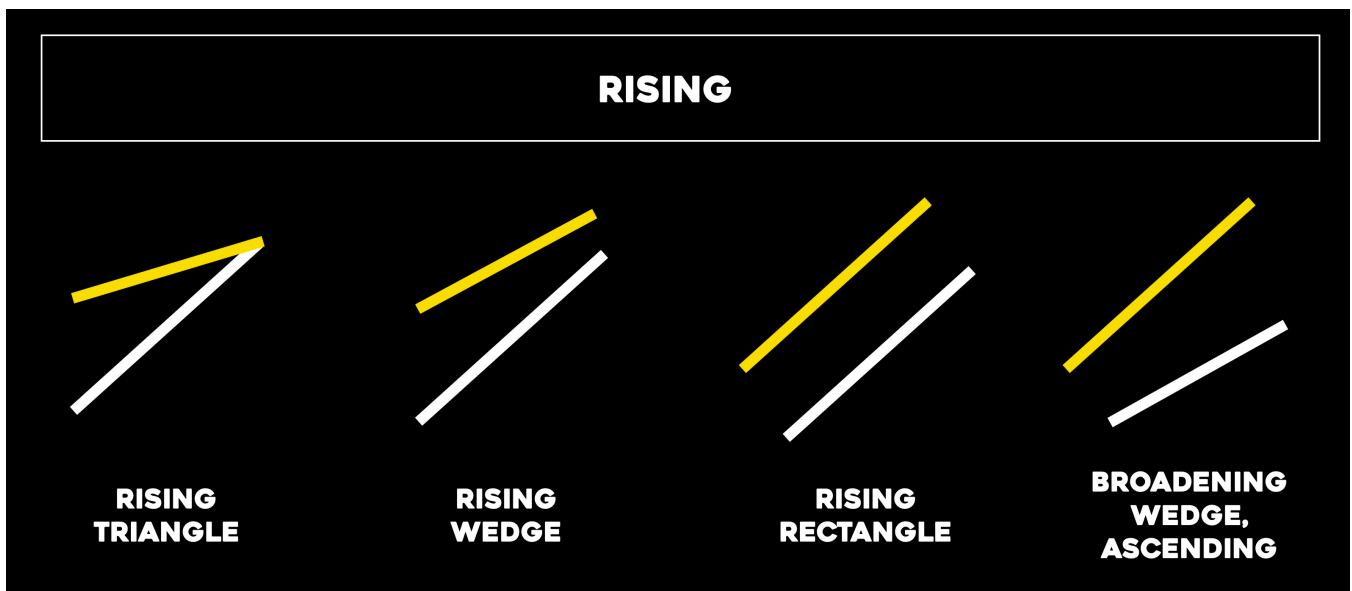
These formations happen when there are numerous failed attempts to break out the resistance.

C. Flat Bottom Patterns

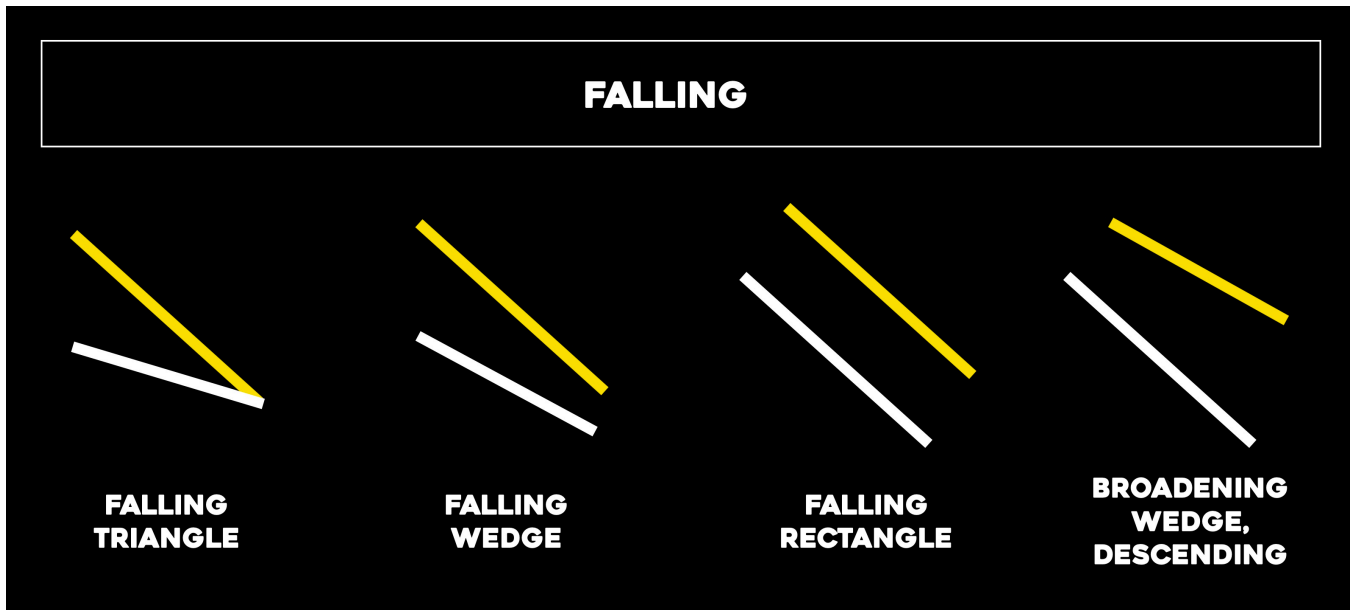


These formations happen when there are numerous failed attempts to break support.

D. Rising Patterns



E. Falling Patterns



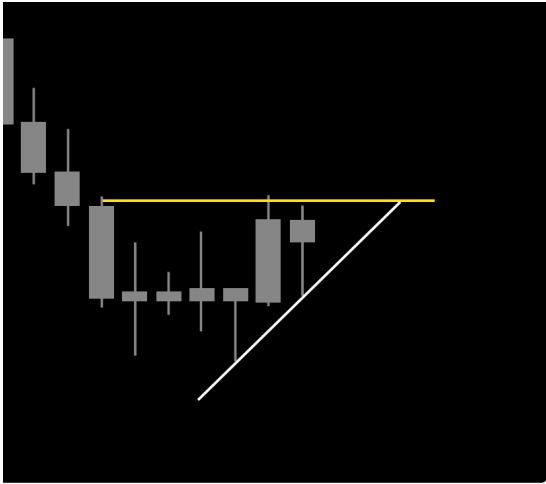
Pattern Stats and Performances

Forewords

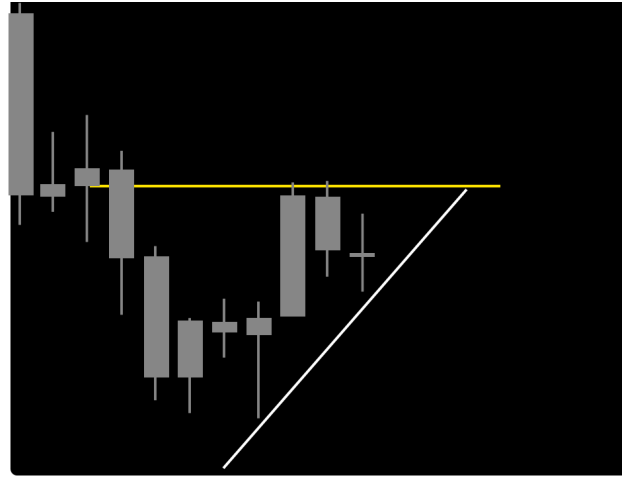
It's critical to realize that the resolution of a pattern in day trading greatly depends on where the price is situated in relation to the volume weighted average (VWAP) and the exponential moving averages, the 9-EMA in particular.

You can't just apply the pattern examples from the internet that are drawn from daily timeframes.

Below are two examples of patterns that share a similar first stage (*some things are intentionally hidden*):



A



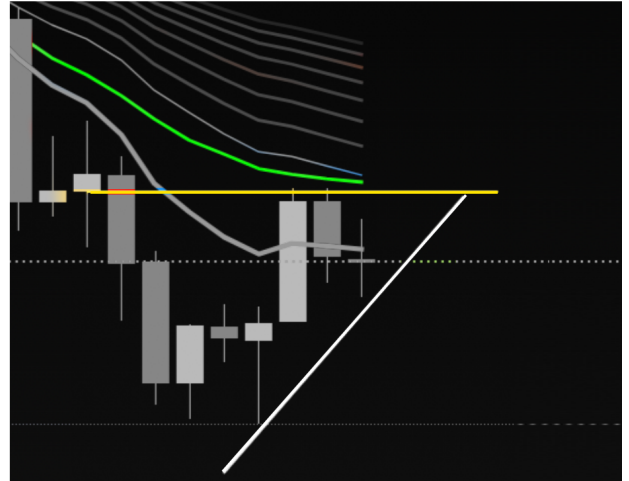
B

We can see that after a downtrend, the price made a brief recovery, only to meet some resistance (yellow line).

Quite honestly, with only this information, I'm incapable of predicting what will happen next. Let's add the VWAP and the EMA ribbon:



A



B

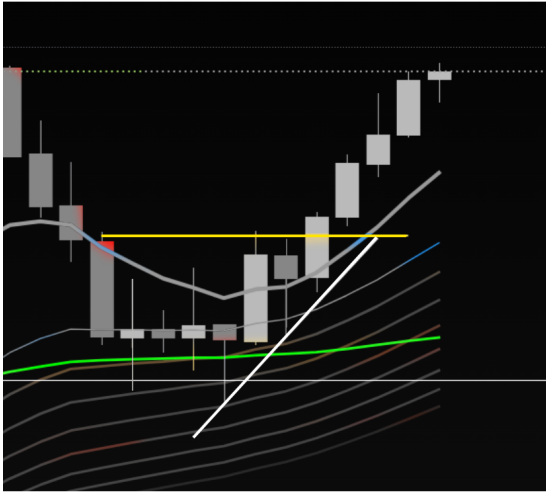
Now, we can see that the last candle of pattern A has closed above the 9EMA and the EMA ribbon, after finding support at the VWAP (in green).

In pattern B, the last candle has closed below the 9EMA and the EMA ribbon, after having had a resistance at VWAP.

VWAP acted as a support in one scenario and as a resistance in the other.

With this new information, it's more likely that pattern A will break out to the upside, while pattern B will break out to the downside.

If I had to trade with only this knowledge (ignoring volume and other factors), I would buy long if pattern A sees a breakout above the resistance (yellow line) and sell short if pattern B sees a breakout below the support (white line).



A

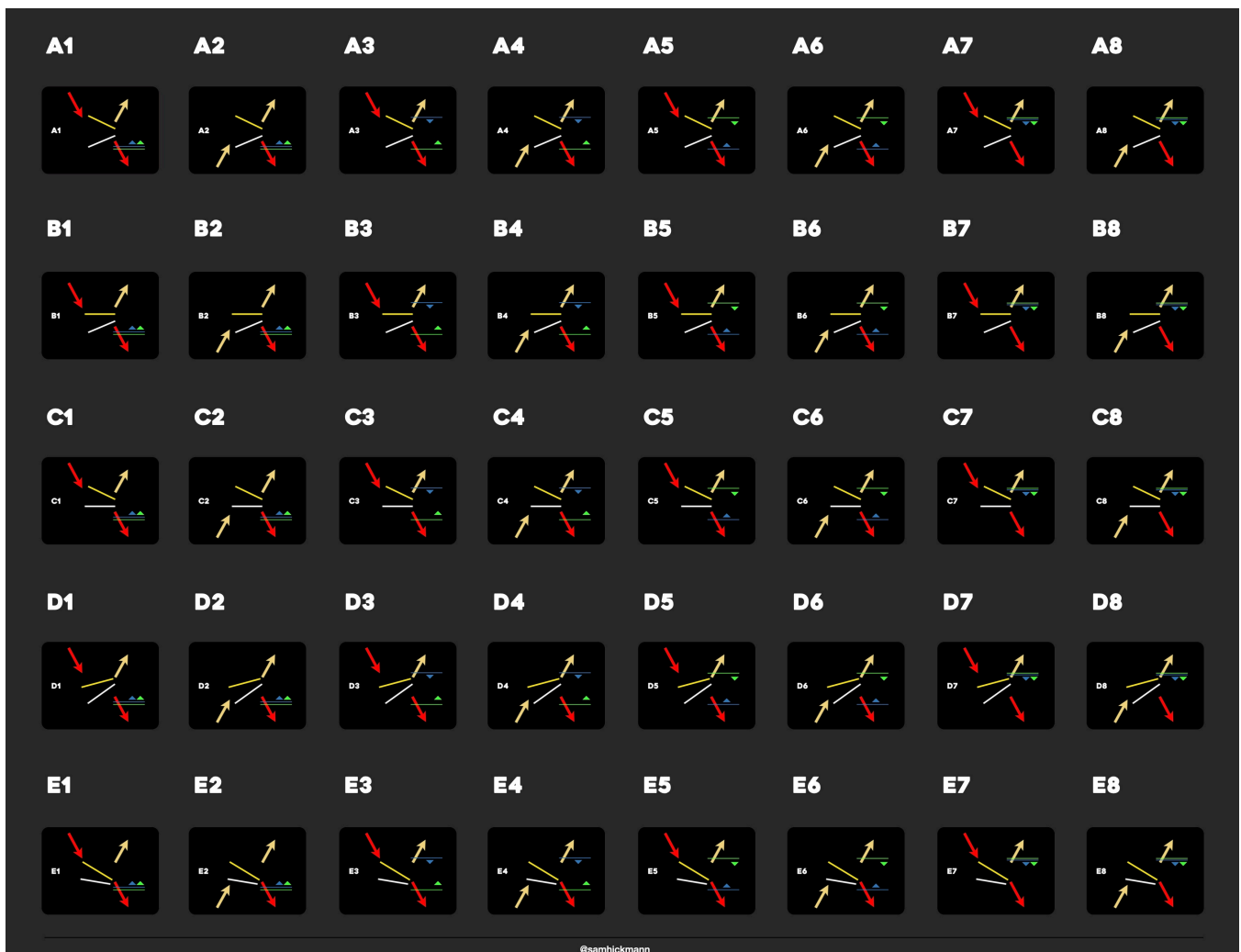


B

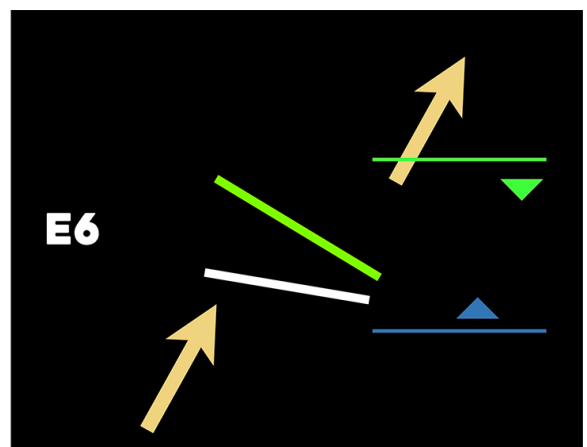
In the following pages, you'll find the data that I gathered regarding these breakouts. By keeping tabs on the odds, I am able to adjust the size of my trades and the level of risk I am willing to take based on the potential outcomes.

Pattern Reference Guide

There are a total of 16 possible setups for each of the 5 categories, depending on where the breakout falls in relation to the 9-EMA and the VWAP, as well as the direction it takes (upward or downward). To simplify, I compiled 2 scenarios per graph: the breakout upward and the breakout downward:



How to figure out what pattern you have



If your chart looks like this, it is an E6 upward breakout. The breakout happened above the 9-EMA (blue line) and below the VWAP (green line).

Pattern Stats

This table is sorted by pattern families. I rounded each statistic to make it easier to remember. (e.g: 83%/17% becomes 80%/20%)

Label	Downward breakout %	Upward breakout %	Downward breakout	Upward breakout	Confidence level (based on number of Occurrences)	
A1	10%	90%				★
A2	20%	80%				★★
A3	60%	40%				★
A4	90%	10%				★
A5	0%	100%				★
A6	30%	80%				★
A7	70%	30%				★★
A8	90%	10%				★
B1	0%	100%				★
B2	30%	70%				★★
B3	80%	30%				
B4	100%	0%				
B5	0%	100%				
B6	30%	70%				
B7	80%	20%				★
B8	100%	0%				★
C1	0%	100%				
C2	30%	70%				★
C3	50%	50%				
C4	100%	0%				
C5	0%	100%				
C6	30%	70%				
C7	70%	30%				★
C8	100%	0%				★
D1	60%	40%				★
D2	80%	20%				★★★
D3	100%	0%				★
D4	100%	0%				★
D5	60%	40%				★
D6	100%	0%				
D7	100%	0%				★★★★★
D8	100%	0%				★
E1	0%	100%				
E2	0%	100%				★★★★★
E3	30%	70%				
E4	50%	50%				★
E5	0%	100%				★
E6	0%	100%				★
E7	40%	60%				★
E8	30%	70%				★★

How to read these stats

Example:



This is a symmetrical triangle. Based on my cheat sheet, it is an A2. According to the statistics, there is a 80% chance of an upward breakout and a 20% chance of a downward breakout.

Pattern Performances

This table is sorted by the patterns with the highest percentage of upward breakouts and by confidence level (based on number of occurrences)

Label	Downward breakout %	Upward breakout %	Downward breakout	Upward breakout	Confidence level (based on number of Occurrences)	
E2	0%	100%				★★★★★
E5	0%	100%				★
E6	0%	100%				★
A5	0%	100%				★
B1	0%	100%				★
B5	0%	100%				
C5	0%	100%				
E1	0%	100%				
C1	0%	100%				
A1	10%	90%				★
A2	20%	80%				★★
A6	30%	80%				★
B2	30%	70%				★★
E8	30%	70%				★★
C2	30%	70%				★
B6	30%	70%				
C6	30%	70%				
E3	30%	70%				
E7	40%	60%				★
E4	50%	50%				★
C3	50%	50%				
D1	60%	40%				★
D5	60%	40%				★
A3	60%	40%				★
A7	70%	30%				★★
C7	70%	30%				★
B3	80%	30%				
D2	80%	20%				★★★
B7	80%	20%				★
A8	90%	10%				★
A4	90%	10%				★
D7	100%	0%				★★★★★
D4	100%	0%				★
C8	100%	0%				★
D3	100%	0%				★
D8	100%	0%				★
B8	100%	0%				★
C4	100%	0%				
D6	100%	0%				
B4	100%	0%				

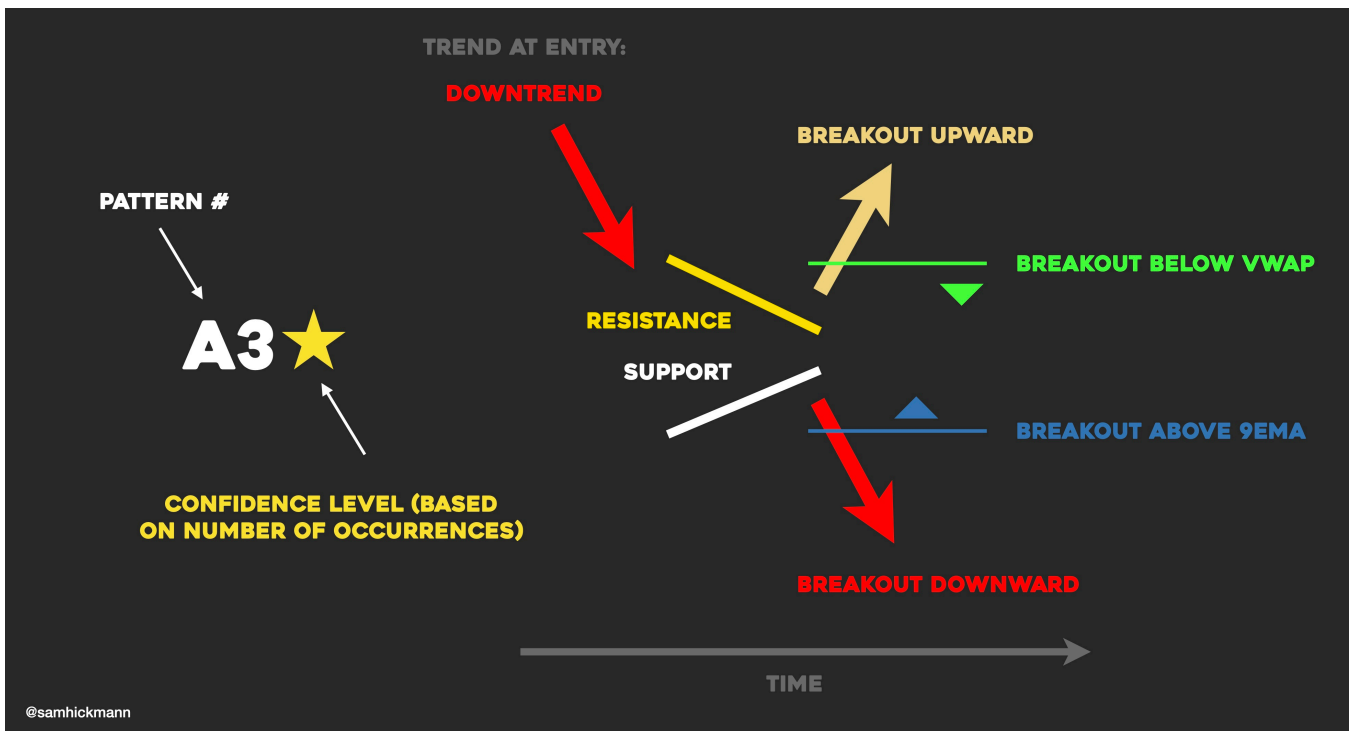
Bull flags and bear flags are the most powerful patterns, as you can see all over the internet. A bull flag with a breakout above the VWAP and 9-EMA (E2) has a nearly 100% chance of going higher.

A bear flag with a breakdown below the VWAP and 9-EMA (D7) has a nearly 100% success rate of decline.

Putting everything together

When I trade, I always have this cheat sheet handy. I'm always trying to figure out what pattern is developing. When I enter a trade, the

percentages and confidence levels (represented by the stars) define the amount of my risk (R). More on this in Chapter 6.

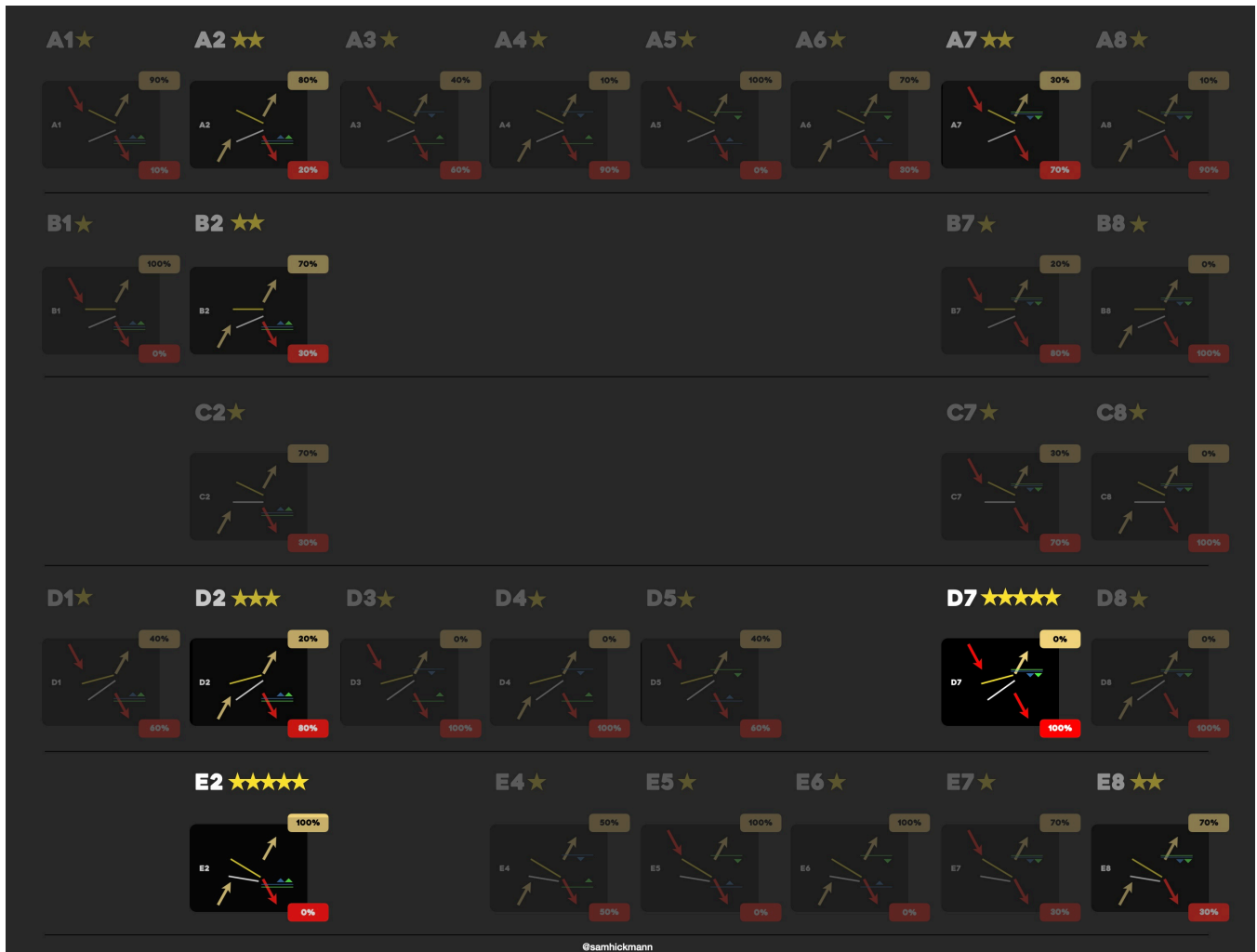


The sheet below shows the more reliable patterns in clear, and the less reliable patterns in dark, for easier readability.



 [Download the latest updated version on www.day-trading-that-works.com](http://www.day-trading-that-works.com)

As I never trade no-star patterns, I've updated this sheet to exclude them:



! Price activity can get irregular at times (especially after 1pm ET). To name a few, false breakouts, flush followed by a spike, etc. Unfortunately, the only way to learn this is through actual trading experience and time spent trading against live data. Even if everything seems to be falling into place, you'll still feel like something's off. Trading after 1pm ET is typically not a good idea, as I learned the hard way.

Larger patterns

During regular trading hours on the 5-minute timeframe, you may notice additional patterns such as head and shoulders, rounding bottoms, cup and handle, and so on. However, it is uncommon. I want to keep this book focused on day trading, so I'll only cover the head and shoulders that we occasionally see during the day:

Head and Shoulders

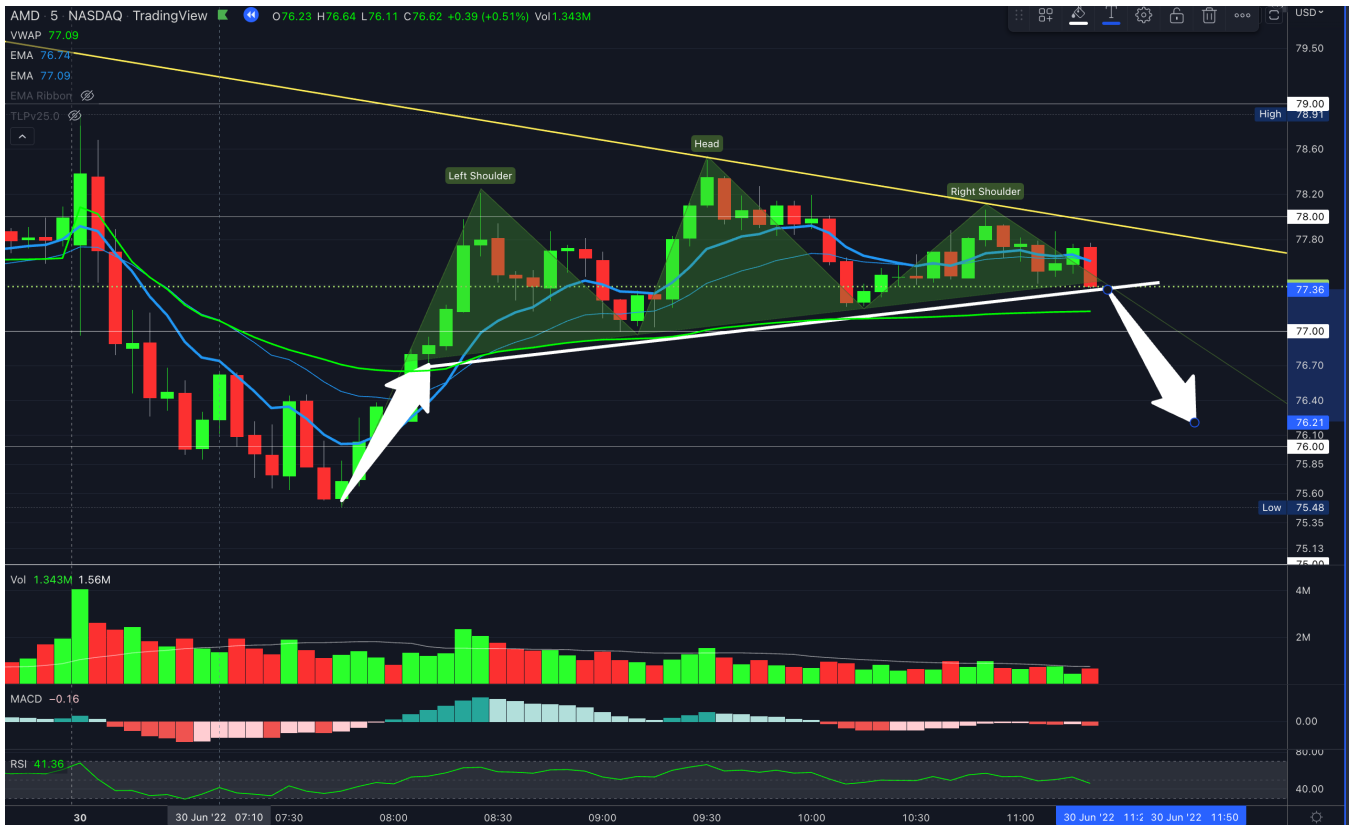


Example: around 11:20 a.m. PST, I added the head and shoulders pattern on top of my chart because it began to resemble one. The top of the head and the second shoulder were bouncing off the resistance of a longer timeframe descending trending line (in yellow).

And since I also saw a flat-bottomed triangle whose breakout was highly likely to be to the downside, I went short after the head-and-shoulders pattern's neckline was broken (the thick white line on the chart below.)



This head and shoulders pattern is bearish. When it breaks below the neckline, the downside move will be the same size as the ascending one (white arrows):



This head and shoulders was nearly a textbook example. If you come across one, you should definitely trade it. It's rare. This pattern is usually seen on longer timeframes over several days.



Patterns on the 1-hour time frame or more

The further back in time the trend line (support or resistance) goes (for example, on the 1-hour timeframe), the more it is usually respected and the price will bounce out of it.

Example:



Entry/target/stop loss good practices

After the breakout

A prudent approach to day trading is to wait for the pattern to confirm before entering. The stop loss should be below the support line (+ a buffer), and the first target should be where there is a chance of reversal (minus a buffer), such as a significant price (\$100), multi-day resistance, or previous pivot points on a larger pattern.

Example:



We see on this chart that an E2 pattern is forming (a bull flag). We place our entry point above the breakout of the descending trending line (resistance). The stop loss is set below the previous low (red arrow). The first target is at the previous high, for a 1 to 1 risk/reward ratio.



The order is executed few minutes later and the target is reached.

At support (long) or at resistance (short)

A more lucrative way to enter a trade, but also riskier, is to buy at support (or sell short at resistance). It is more lucrative because you enter sooner, but it is riskier because you're betting against the short term trend, and the price might actually breakout downward instead of bouncing from support.

Example:



E2 pattern is forming and we notice 3 support lines.

1. The first one is a descending trending line from the previous day, that was previously a resistance, and now acts as a support.
2. The second one is an ascending trending line.
3. The third one is the VWAP.

With convergence of these 3 supports, there is a high chance of bounce.

When buying at support, it's important to wait and see an actual bounce. Some traders buy the first 5-minute candle to make a new high. I prefer to buy the first 1-minute candle to make a new high (see chart below), which is technically a micro pullback on the 5 minutes. I take a significant buffer for my stop loss in case of a false breakout downward. My target is set few cents below the previous high (green arrow) for a 2:1 risk/reward ratio.



LOSERS GUIDE TO ONLINE TRADING

**LOOK, I TOLD YOU! I'LL COME
AND HAVE DINNER JUST
AS SOON AS I'VE
BROKEN EVEN!**



Chapter 6 - Strategy

Some Maths

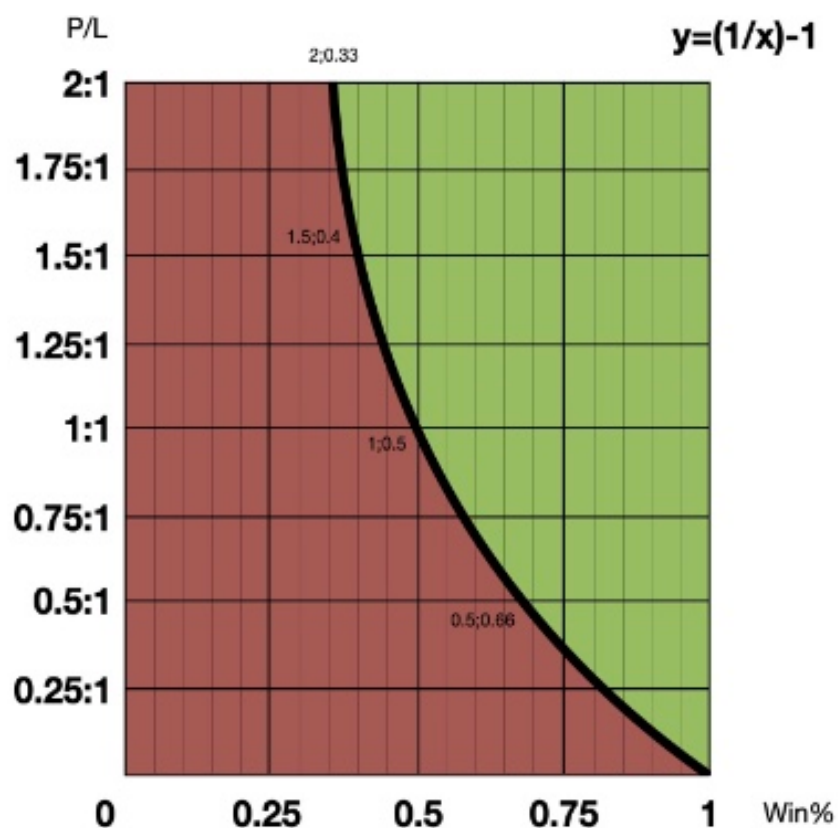
I'll begin this chapter with an equation:

$$y = (1/x) - 1$$

The **winning percentage** is represented by the x axis.

The **profit factor** is represented by the y axis.

This is the chart associated with this equation:



If you are in the green zone, it means that your strategy is profitable. You are losing money if it is in the red.

Here are a couple of examples:

Example 1:

If you finish your trading day with 10 trades, 5 of which were winners and 5 of which were losers, your winning percentage is 50%.

If each of your winning trades resulted in a \$100 profit and each of your losing trades resulted in a \$50 loss, **you are a profitable day trader, even if you are wrong 50% of the time.**

Example 2:

In contrast, you could make six winning trades and only two losing trades, but if your winning trades only bring in \$50 and your losing trades lose \$200 each time, **you are NOT a profitable day trader, even if you are correct 75% of the time.**

Let's plot examples 1 and 2 on a chart.

Example 1:

Win% = 0.5

P/L = 2:1

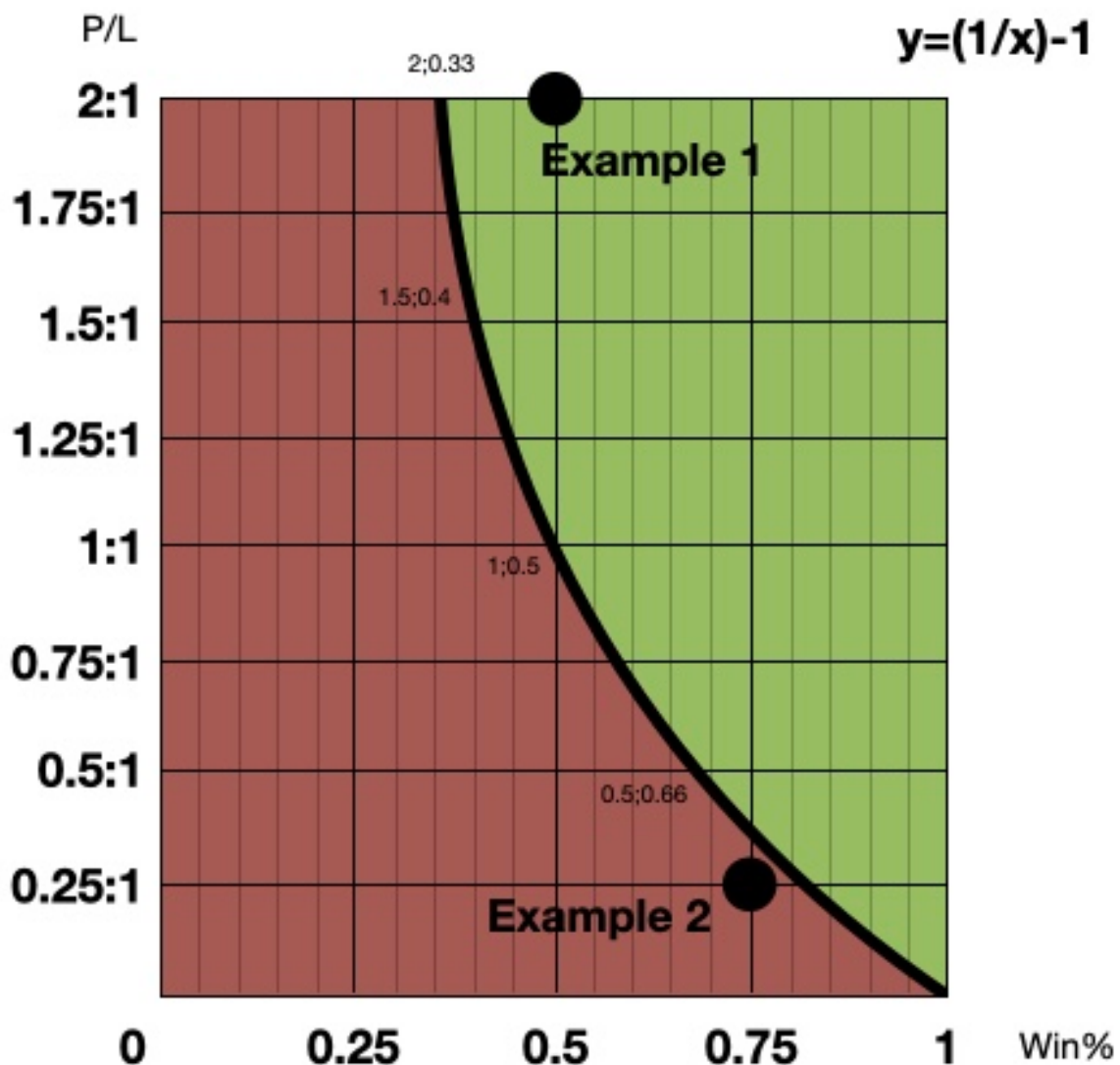
Total profit = \$250

Example 2:

Win% = 0.75

P/L = 0.25:1

Total profit = -\$100



💡 Whatever your trading style is, you must fine-tune your strategy to end up in the green zone of the chart. For example, my win percentage is over 65% and my P/L ratio is 1.6. It means that on average, I'm correct two out of three times, and my profit is 1.6 times greater than my losses.

2 Types of bad day traders


Let's review 2 types of day traders:

A. The aggressive risk taker

B. The one who is afraid of losing

A. The aggressive risk taker

The aggressive day trader seeks to win big and fast. He enters the trade without waiting for a proper breakout or bounce. He buys on the dip or in the middle of a forming pattern. When the trade does not go as planned, he purchases more to average down his price. (This is known as Dollar Cost Averaging, or DCA.) He averages down as long as he has purchasing power. When it works, the price reverses and the profit skyrockets. However, more often than not, the price does not reverse; instead, it simply "dead-cat bounces" or follow a "9-EMA retracement" and continues to fall. The loss is significant. The aggressive day trader remains hopeful of a reversal. He believes that "as long as I don't sell, it's not a loss." But, before long, the closing bell rings, and he must close his positions, incurring a significant realized loss.

 **Summary: When a trade does not go his way, he averages down, amplifying his loss. When the trade goes his way right away, he wins, but only slightly because he didn't average up.**

Here is an example of a disastrous day if you trade in that manner.
The 9-EMA retracement.




35 minutes after the market starts, the stock soars. You place your first trade at roughly \$97, and it then reverses. You anticipate it to

bounce when you average down at VWAP, but it keeps flushing. You average down, expecting it to double bottom and bounce back, but it keeps falling. The price then settles around \$94. You average down again. It gets even worse. It is currently worth \$93. You try once more, but no success! It was just a dead cat bounce, and it went down repeatedly. The stock continues to decline throughout the day, with little respite. This is a catastrophe scenario. The stock retraced the 9EMA but did not reverse.

Note: When utilized appropriately, dollar cost averaging can be effective, but I wouldn't advocate it unless you're a highly experienced day trader.

B. The day trader who is afraid of losing

He becomes tremendously anxious when he sees a negative unrealized profit. As a result, as soon as he begins a trade and sees some red, he can't help but move his stop loss to break-even. When the price rises, he also raises his stop loss. The issue is that he is stopped out extremely rapidly since, even in an uptrend, the price does micro pullbacks and catches his stop loss.

 **Summary: A very tight stop loss results in very little gains on each trade because it is executed as soon as there is a micro pullback.**

Here is an example on the 1-minute timeframe: Arrow 1 is the entry. Arrow 2 is the initial stop loss. As soon as he sees some red, he raises his stop loss to break-even (Arrow 3). He's getting stopped out.

His original stop loss position was good, and he should have stuck with it.



Key takeaways

None of them are profitable in the long run. Trader A will experience roller-coaster rides with sometimes large gains and frequently large losses, whereas Trader B will lose slowly but steadily.

👉 **The key is to understand your personality and tailor your strategy accordingly. Are you leaning toward Trader A or Trader B?**

Your day trading journey

As previously stated in this book, 99.99% of day traders will lose money at first. Profitability could take 3 months, 6 months, 2 years, or 10 years. So, why should you start trading with real money?

Begin with paper trading.

To begin day trading, you don't even need a broker; Tradingview allows you to trade with simulated money. It's known as paper trading. You decide how much fake money to trade with (it should be the same as the amount of real money you intend to trade with later).

Then you trade every day until you become profitable.

Don't celebrate just yet if you become profitable.

Continue with real money, but...

If you were profitable while trading on paper, it is now time to trade with real money ... your money. But don't go too big just yet. You will discover that it has a psychological impact on how you trade.

I strongly advise you to only trade with 10% of what you intended to trade with, i.e. \$10,000 if you intended to trade with \$100,000.

When you reach profitability and can maintain it during three consecutive months, you can proceed to the next step.

The real challenge begins...

You can finally day trade with more money. I wish you the best of luck and happiness 🎉

Let's take a step back and talk about strategy.

STRATEGY

Discipline, discipline, discipline

Each day trader has his own strategy. You need to create yours. It depends on your personality, your risk tolerance, your wealth, your time and so many other things.

I'm not a high frequency trader. My trades last several minutes, and sometimes hours.

I'm not stressed. I don't need to act particularly fast. I don't need to have a bunch of keyboard shortcuts. I have very few red days. I control my risk. I win on the long run because my strategy is based on statistics and my ability to correctly detect patterns.

Over 95% of my trades are on blue-chip stocks or ETFs. I size my trades on the 5-minute timeframe. The other larger timeframes only help me to detect larger support/resistance lines and patterns. The 1-minute timeframe helps me to position my precise entry order.

You must stick to your strategy, then tweak it to improve it.

It easier said than done.

At the beginning of our trading journey, when a day is going wrong, we have a tendency to change things in live. Don't do it. Stick to your strategy. When the session is over, that's when you re-assess and change things. That's how you progress. Step by step, your strategy will become better. You must be **disciplined**.

Daily goals, max loss

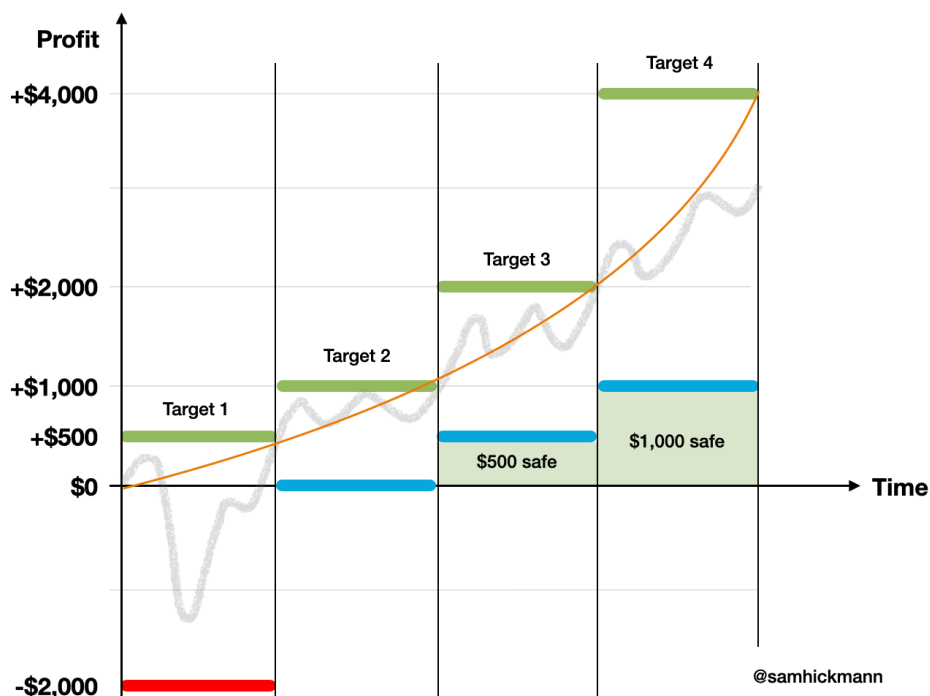
If your goal is to make a million in profit in one year, it's about \$4,000 per day. But that's in average. You need to take into consideration that you will have red days. With time, I experienced what every day trader experienced, a bad day can quickly turn into a disaster. **You want to avoid this at any price.** You don't want to be in a position where you

need to overtrade to make up for a huge loss, because that will rarely happen.

What could be worse than making \$16,000 in 4 days only to lose it all on the fifth day?

My rule of thumb is that you don't want to lose more than half your daily average goal in one single day. Ideally you even want to stop trading earlier, but we all know that our instinct is that "we can get back in the green".

In fact, I even broke down my daily goal in successive targets. Here is an example:



First and foremost, I need to get \$500 in realized profit as soon as possible. I take several trades and I allow myself to lose up to \$2,000, but if this bad scenario happens, that's a hard stop and I call it a day!

As soon as I reach my first target, I won't allow myself to lose more than \$500 until I reach my second target which is \$1,000.

So basically, the worst that can happen to me now is that I end up even for the day.


When I reach \$1,000 in profit, I make sure to keep at least \$500 on the day. I repeat this cycle indefinitely following an exponential progression.

For instance, if my realized profit on the day is \$3,500, my next target is \$4,000 but if I lose \$2,500, it's a hard stop. My realized profit on the day will still amount to \$1,000.

As soon as I make a bad trade, I stop trading and relax for 10 minutes (again, this is just my method; you should develop your own). After that, I'm ready to trade again.




This strategy has proven to be very effective for me.

In retrospect, you will be relieved to see that you kept your losses to a minimum throughout the hard times.

 **Note: Reaching a target doesn't mean closing the trade. If I'm in a good trade, I can reach 2 or 3 targets at once.**

My routine prior to the market's opening

I live on the West Coast. It means that the market opens at 6:30am for me. (I rarely trade pre-market).

-  I get up at 5:30 a.m. and am at my computer by 5:45 a.m.
-  I begin by reading financial news and the economic calendar (15 minutes).
-  Then I go through my watch list (25 minutes) to see what moves are made before the market opens (I display temporarily the extended trading hours on my 5-minute chart). I'm particularly interested in \$QQQ, \$SPY, \$VIX, \$TSLA, \$APPL, \$GOOG, \$AMZN, \$AMD and \$MSFT. I also look at my small caps scanner to study the leading gapers, (a quick look at their financials, do they have a S1/S3 filling, breaking news, etc.)
- As an example, let's pretend that \$AMD looks the most promising today. I place my support and resistance lines on the different timeframes.
- I write my remarks on a new Daily Report Card (see appendix for an example)

- 📺 5 minutes before the market opens, I prepare my screencast (I record all my trading activity using Streamlabs desktop and archive it for later review).
- 🔔 The bell rings at 6:30 p.m.

At the market open

Sometimes, I play the “gap and go” or the opening range breakout (ORB) that I’ll describe later in this chapter, but I usually don’t trade at the market open. I don’t say you shouldn’t, but my stats prove that I’m not good. The market is too volatile. Market orders arrive in mass.

Instead, I wait and observe for at least 25 minutes, the necessary time to have a least five 5-minute candlesticks. The first pattern of the day is forming. The guessing game is starting.

Guessing the next pattern every 5 minutes

My trading strategy doesn’t require me to keep looking at my screens. I use a timer. Every 5-minutes I:

- re-assess the current pattern,
- adjust my support/resistance lines,
- enter or adjust my orders,

This is what my 5-minute chart looks like during a session:



Risk strategy

Based on my stats described in Chapter 5, each pattern has a quality score from 0 to 5 stars.

My total risk depends on it:

- I don't trade 0-star patterns
- ★ total risk = 1
- ★ ★ total risk = x2

- ★ ★ ★ total risk = x2.8
- ★ ★ ★ ★ total risk = x3.2
- ★ ★ ★ ★ ★ total risk = x4

Example: if the total risk for a 1-star pattern is \$1,000, the total risk for a 5-star pattern is \$3,200.

💡 **Note: I use the term “total risk” because as we’ll see below, I take 2 entries per trade with the same risk R. Therefore, my total risk = R + R = 2R**

Sizing

The **risk** I take is based on the quality of the pattern. The **sizing** of my position is based on the shape of the pattern. It depends on where I put my stop-loss (Cf Chapter 3).

I’m a visual person, that’s why I love TradingView and particularly the Long Position tool and the Short Position tool described in Chapter 3. It allows me to visually place the entry point, the stop loss and the target, and the software automatically calculates the number of shares to buy in respect to the risk R.

I use **2 entries**. Let me explain why.

I determined that this tactic is the one that optimize my profit on the long run.

The 2 entries happens at the same time at a similar entry price and stop loss. What differs is the target prices.

Entry 1: target = 1:1 Risk/Reward ratio.

Entry 2: no pre-defined target price.

Then, every 5 minutes, I move my stop losses below the previous 5-minute candle (it's called a trailing stop loss). I take a buffer based on significant levels.

For convention sake, I use **total risk = 2R**. It means that if my total risk for the trade is \$1,000, as I use 2 entries, each entry has a risk R of \$500.

The trade corresponding to Entry 1 will automatically exit at target 1:1 R/R or if it gets stopped out.

Entry 2 will automatically exit if it gets stopped out, or manually by me if it goes parabolic, or if I decide to sell based on a significant level or an over extension.

Example



We see a very extended move to the upside. The price almost touched \$78 then reversed. The last 5-minute candle is a Gravitone Doji (Gravestone Doji). The pattern forming is a **D2**. It's a ★★★★★ 4-star pattern. There is an 80% chance that the breakout will happen downward.

The RSI indicates that the stock has been extremely overbought for over 30 minutes.

The MACD is extremely high and above the signal for 2 hours.

On the 15-minute timeframe (no represented here), I see that the stock is at resistance, touching for the fourth time a descending trending line that started 2 days ago.



I prepare my trade with 2 entries (white arrow) just below the low of the 5-minute candle and the support line.

My stop losses (red arrow) are above the \$78 significant level. I always take a buffer of at least \$0.05.

My target for Entry 1 is at the green arrow. It's at 1:1 risk/reward ratio.

My target for Entry 2 is virtually inexistent (in fact, I put it so low that we don't see it on this screenshot, but it still exist and I will explain why later).

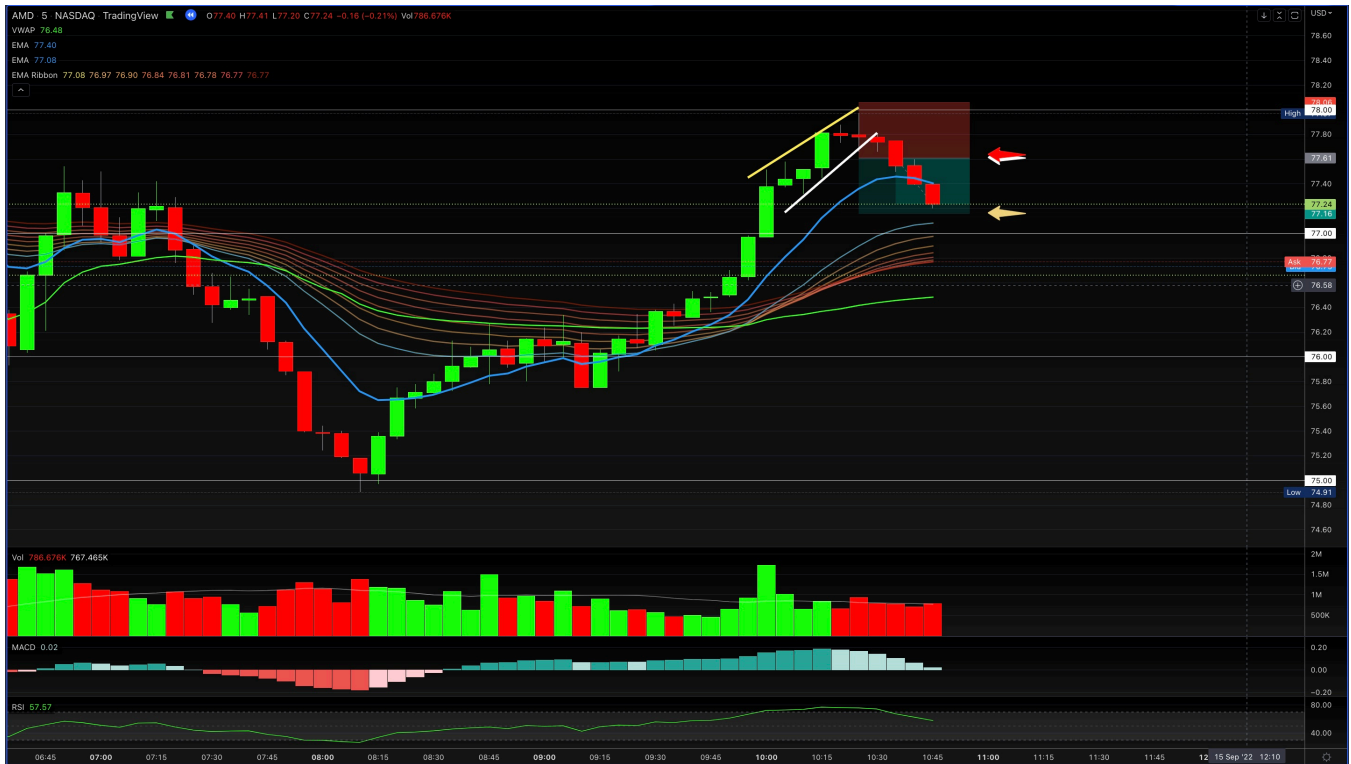


The breakout downward happened. I'm now in the trade, with 2 entries.

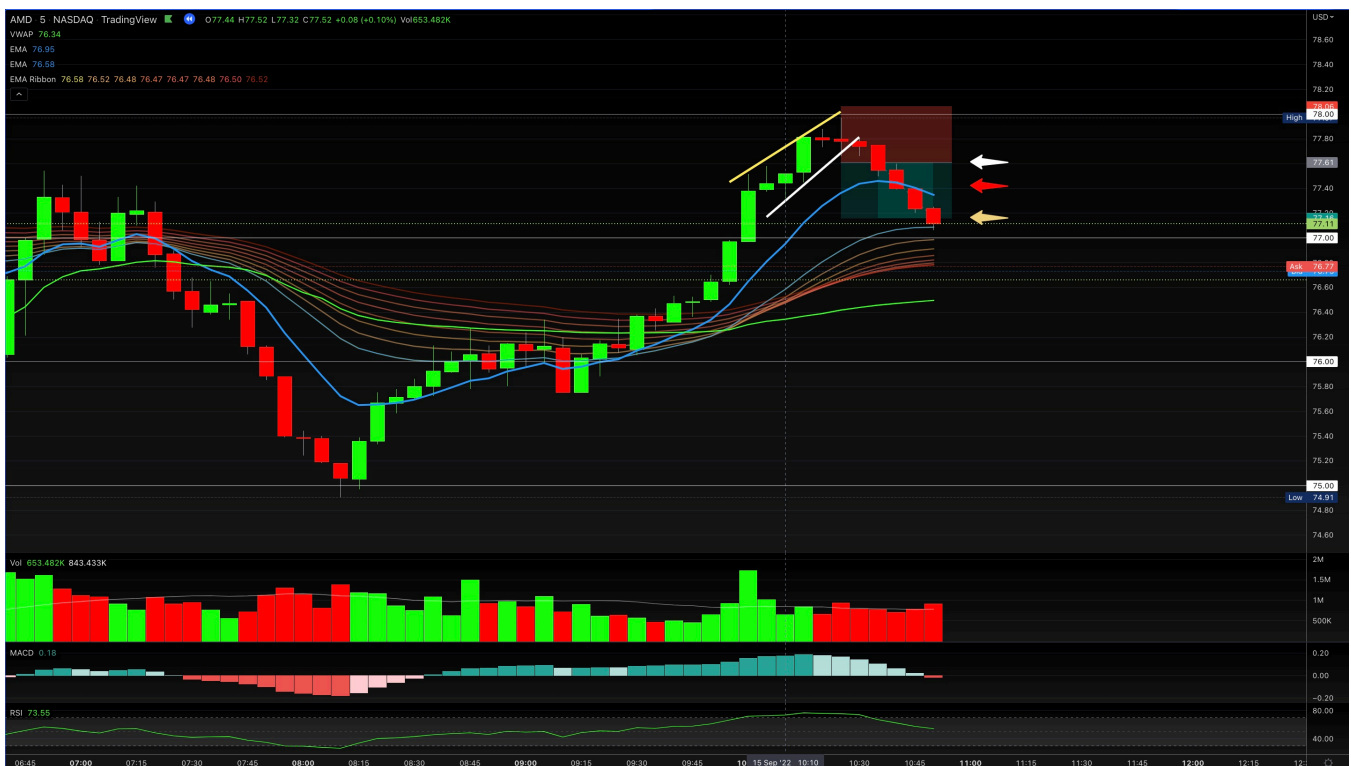
Remember: it's a 4-star pattern so my total risk is x3.2 the amount I would have taken with a 1-star pattern. For the sake of this example, let's say that x1 total risk is \$1,000. Therefore, my total risk here is \$3,200, or \$1,600 per entry. I reference this as the letter R. R=\$1,600.



After the current 5-minute candle closes, I move my 2 stop losses (red arrow) above the high of the previous 5-minute candle (+ a buffer). In this particular instance, it's \$77.81.



5 minutes later, my 2 stop losses are almost at breakeven (red arrow over white arrow). Notice that the price is now below the 9-EMA.

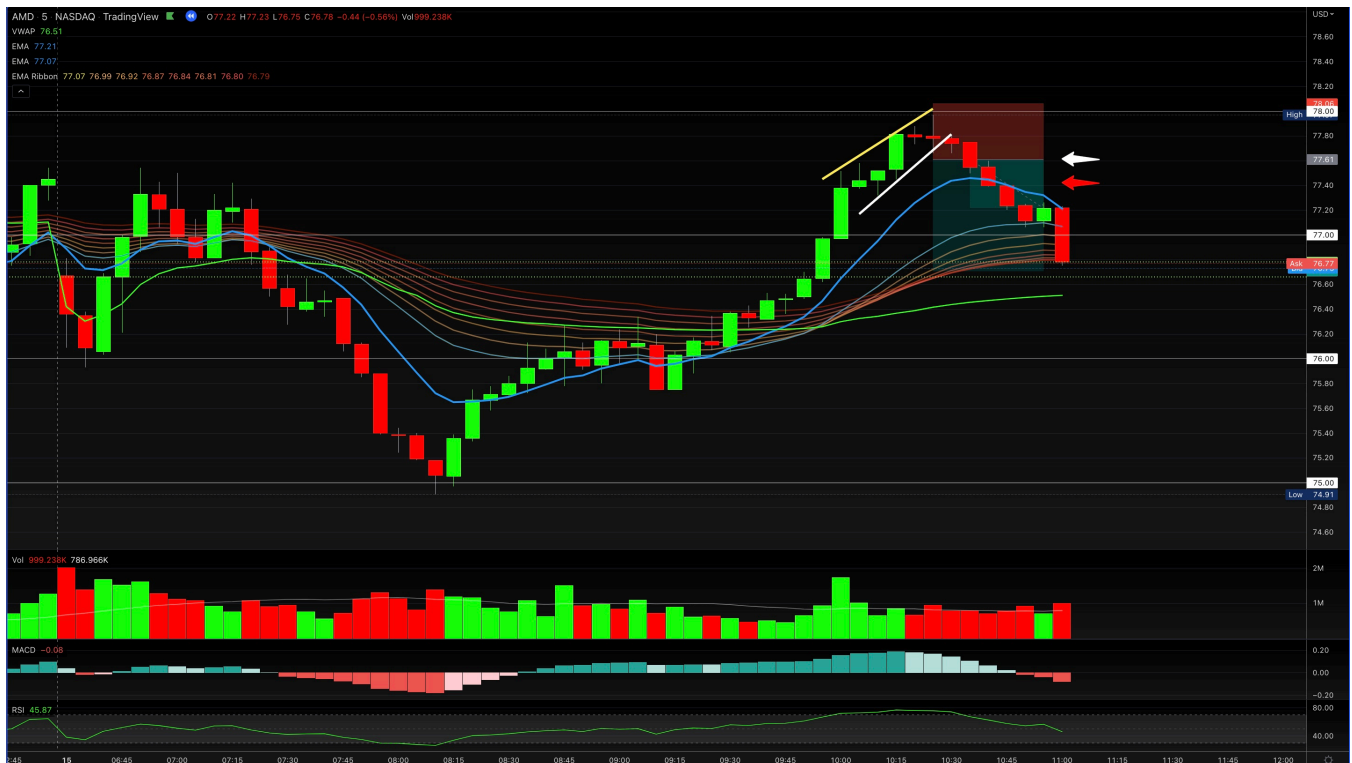


Target 1 has been reached. Entry 1 has been sold for a profit of 1R (\$1,600). The remaining stop loss has been moved above the previous 5-minute candle and happen to be lower than my entry price. At this point, I'm in the driver seat. I have secured 1R, and even if the stock reverses, I'll make an additional profit of about 0.5R.



Now, this is the perfect example for why I move my stop loss above the **previous** 5-minute candle and not above the **current** 5-minute candle. Often time there is a small bounce (or micro pullback) and you don't want to be caught selling. The overall move is not over yet.

In that particular case, the 9-EMA can act as a resistance, so I keep my stop loss where it is.



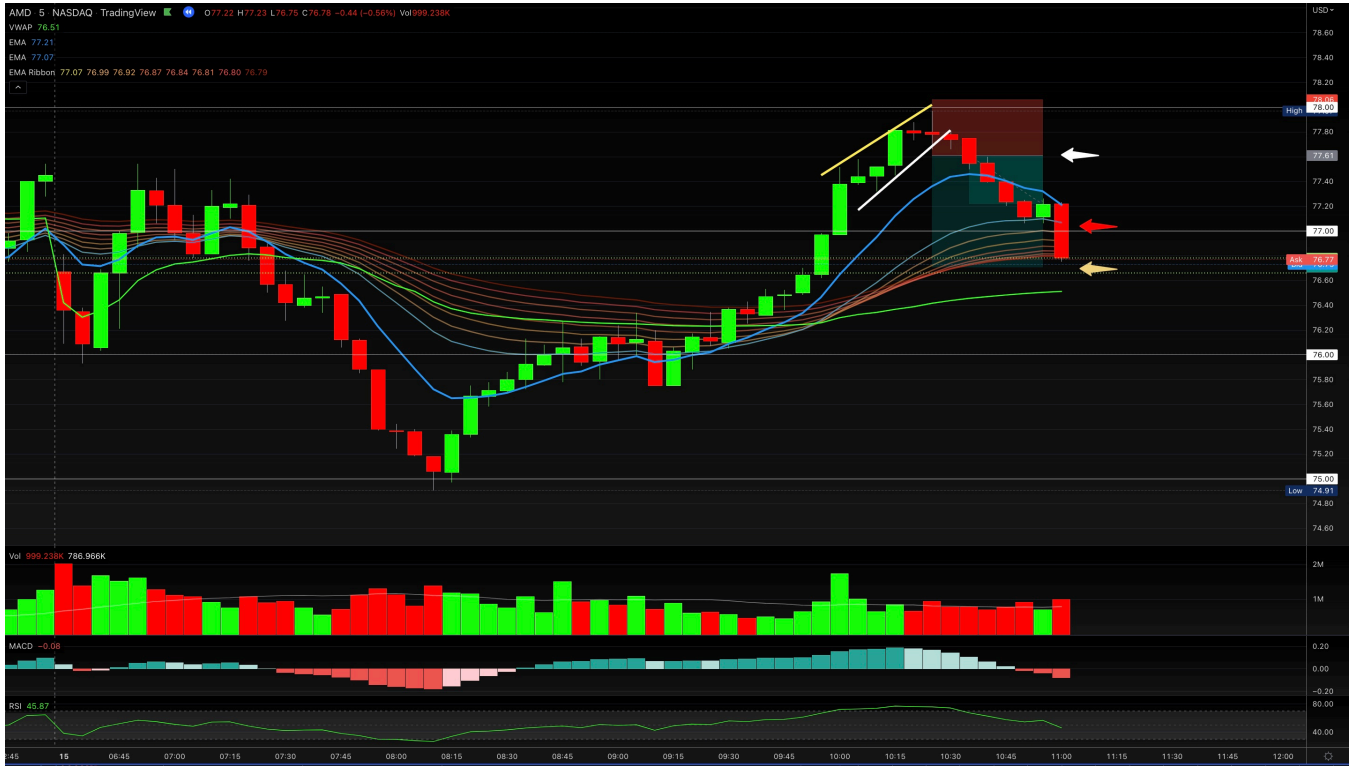
Here is a flush!

Now, that's where you have a quick and tough choice to make:

Option A: you stay in the trade because you think it will go lower (you start to be greedy...)

Option B: you take your profit

The wise choice would be B, but the way it looks, it might go lower and touch the VWAP. That's where the target from entry 2 that I put way down below becomes useful. I will move it up to \$76.71 (green arrow) to try getting a 2R profit.



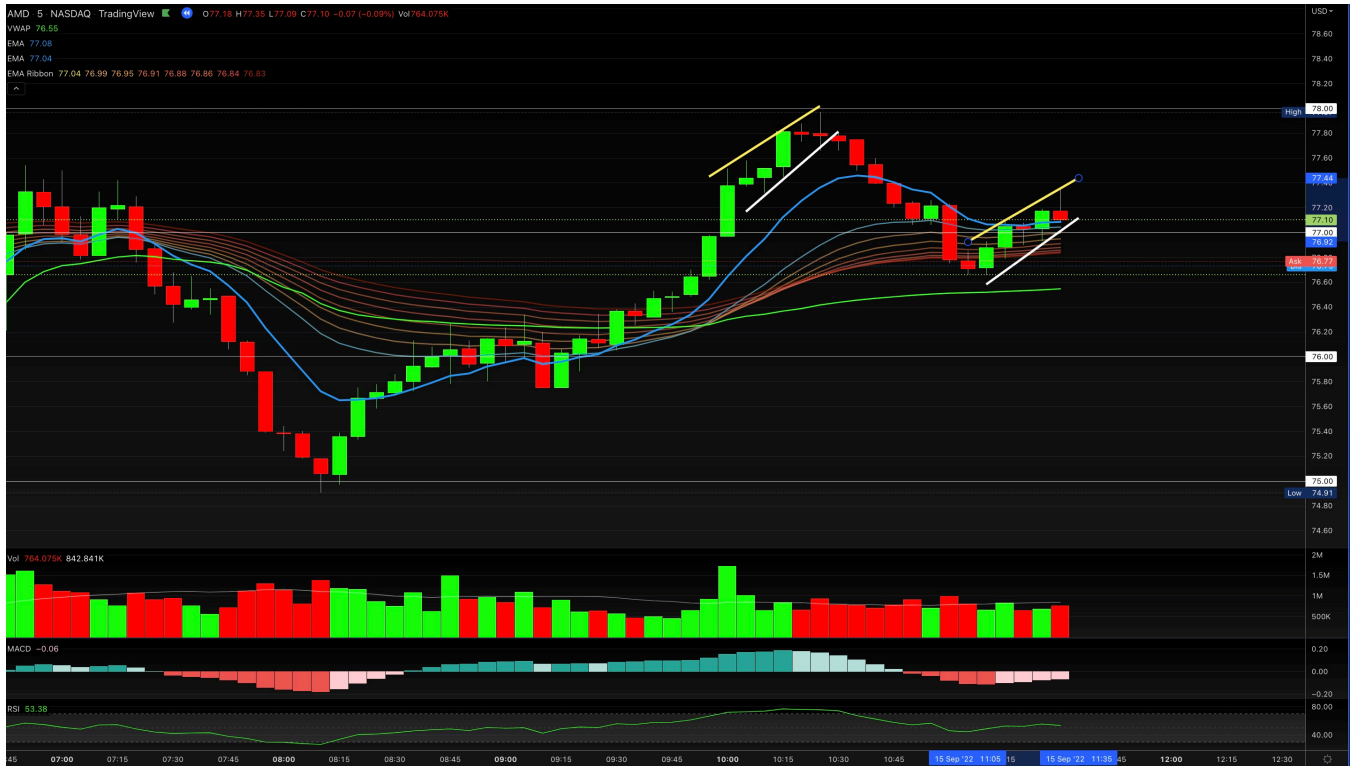
I also take this opportunity to move my stop loss just above \$77 (red arrow), because if the price reverses, the move is over and I still want to secure at least 0.5R. I have “boxed” the price. During the next 5 minutes, either it bounces and catches my stop loss, either it goes down and reaches my target at 2R.



Target has been reached for an additional profit of 2R.

The total profit for this trade is 3R, or $3 \times \$1,600 = \$4,800$.

It's a 1.5 R/R ratio ($\$4,800/\$3,200$).



If we fast forward 30 minutes, we see that a bounce happened just above VWAP. It now looks like a D5 (★ 1-star) pattern. It has a 60% chance of downward breakout. What should I do? Yep, you guessed it. I take another short position. The only difference is that I take a total risk of x1 instead of x3.2.



Total risk of \$1,000. 2 entries at \$76.99 (to avoid an eventual bounce off of the \$77 significant level), each with a risk of 1R (\$500), a stop loss above the current 5-minute candle (notice the topping tail candle!) and a target just above the VWAP at \$76.57 (to avoid a possible double bottom and a bounce off of VWAP).



Fast forward, it's another 3R in profit by using the same tactic.

👏 **Takeaways: In a matter of 2 hours, we made \$9,600 in 2 trades, with a maximum risk of \$3,200. A 3:1 R/R ratio!**

With the condition of still having enough purchasing power, we could have even taken 2 additional trades in the middle, with a nice A3 (★ 1-star) pattern and a A7 (★★ 2-star) pattern (the 2 white arrows in the chart below).



Summary

In average, you can expect an average P/L ratio of 1.6:1 when using this strategy. Take note that this number is an average. The results are also heavily influenced by your win percentage, which in my case is over 65%.

A simplified breakdown is as follows:

65 winning trades = $65 \times \$1,600 = +\$104,000$

35 losing trades = $35 \times -\$1,000 = -\$35,000$


So, for a total of 100 trades, profit = \$69,000, or \$690 per trade.

 You can expect to make between 3 and 20 trades per day, depending on the overall market, the stocks you choose to trade, and how long you trade per day.

If you average 1,500 trades per year (about 6.25 trades per day) with:

- a win rate of 65%,
- and a P/L ratio of 1.6 (\$1,600 profit for \$1,000 loss in average)

you can generate \$1,000,000 in profit.

 **Attention: The average risk/reward ratio is not the same as the profit/loss ratio, particularly with my strategy, where the total risk per transaction varies depending on the quality of the pattern. Let's look at an example.**

Assumptions: Your accuracy is 60% (you win 6 trades out of 10). Your total risk per trade for a 1-star pattern is \$1,000. 2-star pattern = x2, 3-star = x2.8, 4-star = x3.2, 5-star = x4. You make 5 trades.

Trade #1: 1-star pattern, profit = \$1,500

Trade #2: 1-star pattern, profit = \$2,000

Trade #3: 3-star pattern, profit = \$3,000

Trade #4: 1-star pattern, loss = \$1,000

Trade #5: 2-star pattern, loss = \$2,000

By taking each individual trade, we can calculate the risk/reward ratio:

Trade #1: Profit = \$1,500, Risk = \$1,000, => R/R = 1.5:1

Trade #2: Profit = \$2,000, Risk = \$1,000, => R/R = 2:1

Trade #3: Profit = \$3,000, Risk = \$ 2,800, => R/R = 1.07:1

Trade #4: Loss = \$1,000, Risk = \$1,000, => R/R = 1:1

Trade #5: Loss = \$2,000, Risk = \$2,000, => R/R = 1:1

Your total profit is \$6,500, your total loss is \$3,000, hence your profit/loss ratio **P/L = 2.16:1**.

Your maximum total risk at any given time was \$2,800. Your net profit is Profit minus Loss = \$3,500. Therefore, your average **R/R is \$3,500 / \$2,800 = 1.25:1**

Playing counter trends

⚠ Warning: I don't recommend doing this as a beginner. When you don't have a lot of experience, this is risky.

You can maximize your profit by taking early entries either to anticipate a reversal or the end of the counter trend.

Let's go back to our previous example.

We've already established that this is a D2 with an 80% chance of breaking down. We can see that the move is already quite extended. Besides that, we are approaching the \$78 level.

My 1-minute timeframe chart comes in handy here. I take a close look at it.



I expect a reversal, but at this point, it could also spike quickly in a last-ditch attempt to break through \$78. So here's how I approach this entry:

- I'm mentally prepared to lose. As a result, either I take a risk corresponding to a 1-star pattern (1R), or I risk "my cushion", i.e. the profit I made over my target.
- I only take one short entry (I don't want to push my luck because if it does breakout upward, it could quickly go parabolic in a short squeeze).
- I put my stop loss above the ascending trending line acting as a resistance + a buffer. In this example, my stop loss is at \$78.11.
- I use a \$77.95 limit entry and do not chase it. That is, if it reverses before executing my limit price, I will revert to my regular entry strategy (I'll wait for the breakout downward).
- I don't set a target price because this is the type of trade that, if successful, can yield a large profit. However, as previously described, I use a trailing stop on the 5-minute.

In this case, the trade resulted in a profit of 6.88R! It's an additional $\$500 \times 6.88 = \$3,440$.



In the same spirit, you can buy at support (or sell short at resistance)

You will encounter many "inside" days and sideways price actions throughout your trading career. The price pattern follows a channel rather than deviating from it. If you buy at pivot points, you can profit.

At support, we can buy long in the hope of a reversal in short trend, while at resistance, we can sell short in the hopes of a bounce to lower prices.

It's possible to enter the trade in one of two ways. Let's take the long side for instance.

- 1) the very risky way: you put a limit order at support, hoping to catch the dip. If it works, you maximize your gain. If it fails, it's because you are witnessing a downward breakout and a possible flush...
- 2) the less risky way: prepare your entry, but wait for a first 1-minute candle to make a new high. Doing so, you buy the bounce, on the way up. It is still risky, so be prepared and put your stop loss just below the support line.

On these trades, I use the 1-minute timeframe to time my entries. And my targets are the next support. Here is an example:



I have detected an ascending channel, with slightly higher highs and higher lows, with an ascending support just below VWAP.

The white arrow is the perfect spot to buy (first 1-minute candle to make a new high), with a 3:1 target.

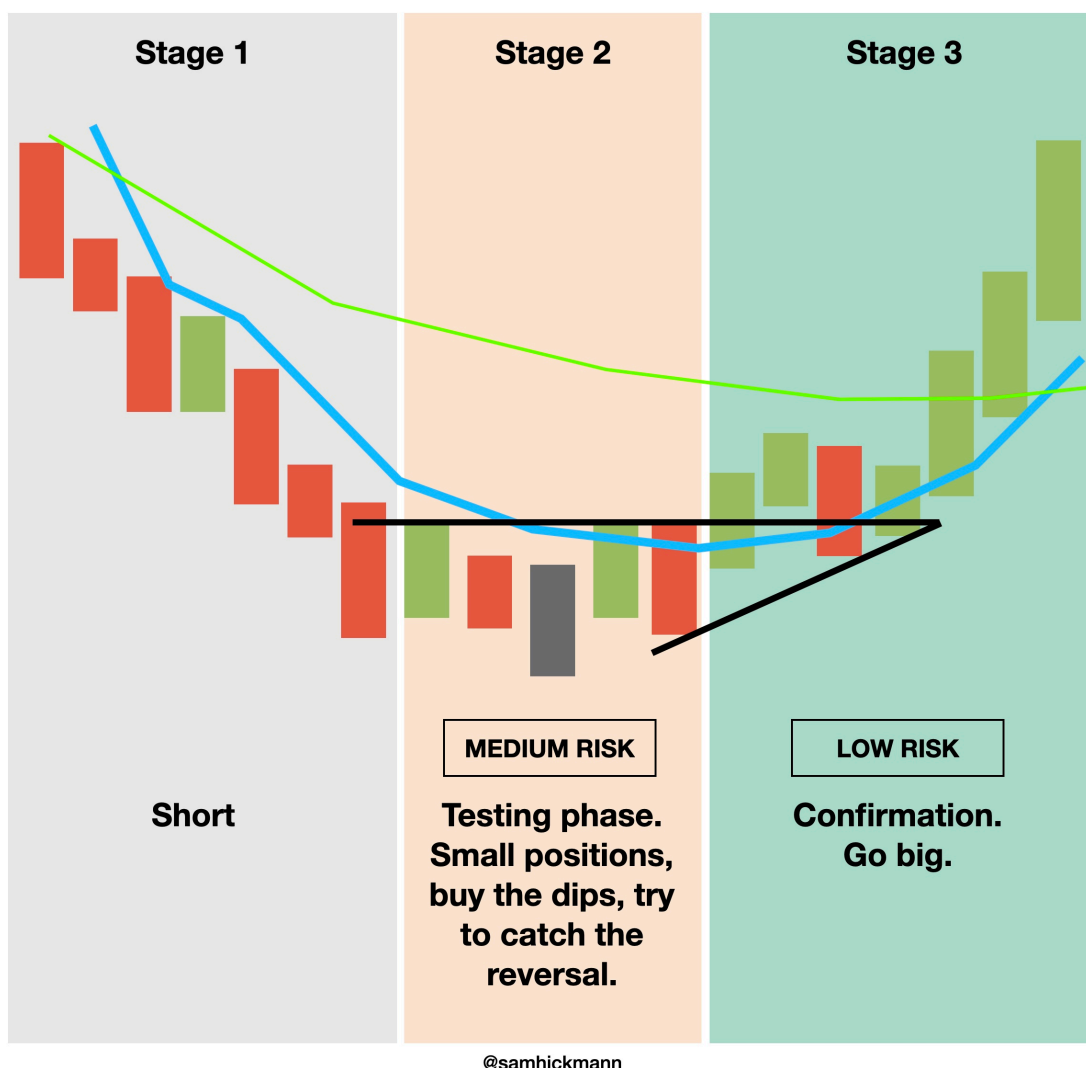
Chasing the reversal

I usually day trade for 2 or 3 hours in the morning and then stop because volume decreases and patterns become erratic. However, I occasionally trade for a longer period of time. That's when something specific happens, usually about twice or three times per month.

It occurs when a stock flushes during the first two hours.

When a stock flushes for so long, it's like tugging a string: it eventually returns to normal.

What I anticipate is a reversal, sometimes known as a red to green move. This normally occurs in three stages:



The first stage is the downtrend. During this stage, I use my regular strategy to play to the short side. If I do a good job, I should be able to profit during this stage.

The pricing is now well below the VWAP and the 9EMA. The stock is oversold.

During **stage 2**, I observe. It's the consolidation stage. I take tiny positions by buying dips on each 5-minute candle, possibly averaging down to the low of the day.

Stage 3 occurs when the price breaks above the resistance of stage 2 (the horizontal black line in the above illustration) and the 9EMA. That is when I begin to increase my position size. I enter after the breakout and then again on the pullback/retest. The price makes a higher low (the ascending black line on the above illustration).

My stop losses are set below the low of stage 2.

This trade requires multiple entries and may last several hours, as opposed to my regular strategy, where trades last less than 20 minutes on average.

We have an excellent example of this on September 1, 2022, on \$AMD:



However, if the down move occurs too late in the day, avoid using this method, because the stage 3 might never come.

Example: the next day, stage 1 triggered mid-session, so there was no opportunity to confirm the reversal. However, take note of the similarities between the downturn (stage 1) and the consolidation (stage 2), which are nearly identical from one day to the next.



⚠ I can't emphasize enough how important it is to be extra cautious when playing reversals. Some days, it just won't reverse!

Here is an example:



It opened down -5% from the previous day's close. Then it flushed for an additional -4% for 2 hours. It finally showed signs of turning around. Unfortunately, this was a false breakout.



Another opportunity presented itself. All of the characteristics were present: above 9EMA, increased volume, higher lows, top breakout...



... but it flushed more!

Gap and Go

The first trade of the day, at the open, can be a gap and go.

This first trade should be insignificant. It is to "gauge the day".
 If I'm correct, that's awesome. The day begins well.
 If I'm wrong, it's a warning sign that I need to slow down.

Therefore, I recommend to take only one entry and half the usual size.

Before the market opens, I choose one stock that is more willing to move when the bell rings, usually one that has gapped up (I will LONG it) or down (I will SHORT it), or one that has received significant news during the night.

Volatility and trading volume are extremely important at the open. You don't want your stop loss to be too tight because it will be executed even if the stock rips to the opposite side a few seconds later, which

you don't want. Nothing is worse than being correct (on the right side of the trade) but being stopped out on a pull back.

You don't want to be too greedy for your target neither. A profit-to-loss ratio of one to one is ideal. You put up \$500 and then take a \$500 profit. You're not going to hit a homerun in the first trade of the day. You simply build confidence.

Here is what I'm looking for at the open:

- a gap up from the previous day close,
- two 1-minute candles with a flat top,
- above VWAP and 9EMA

PS: the same applies to the opposite side. Gap down, 2x 1-minute with a flat bottom, below 9EMA and VWAP.



Then, just above the high, I place a long stop order, so that if the third candle triple-tops and reverses, I am not executed. My stop loss is set below the previous candle's low. My goal is to have a risk/reward ratio of one to one. Then I sit and wait.

My entry is indicated by the first white arrow in the chart below. My exit is indicated by the second white arrow:



As I previously stated, you don't want to be overly greedy in your first trade. Volatility and volume are always extremely high. A "mini" reversal is common at this stage, which is why you want to take your 1:1 profit as soon as possible.

Opening Range Breakout (ORB)

The opening range breakout technique is very powerful.

Initial price weakness is followed by a sharp upswing. In this case, you should buy the breakout upward.

It works the same on the opposite side. Strong opening, then flushes and breakout downward.

In contrast to the reversal discussed earlier in this chapter, the ORB typically occurs within the first hour of the trading session

We had a textbook perfect illustration of a beautiful ORB on October 5, 2022 on \$AMD.

The price was trending downward for 1 hour, then suddenly reversed and never looked back:



During this day, you had plenty of opportunities to enter. The first one was an E7 pattern, at the breakout of the descending trending line, just below the 9-EMA. You could have ridden it up to the top.

But going back to the ORB, the entry occurred during the retest of the previous high of the day (yellow line).

Conclusion

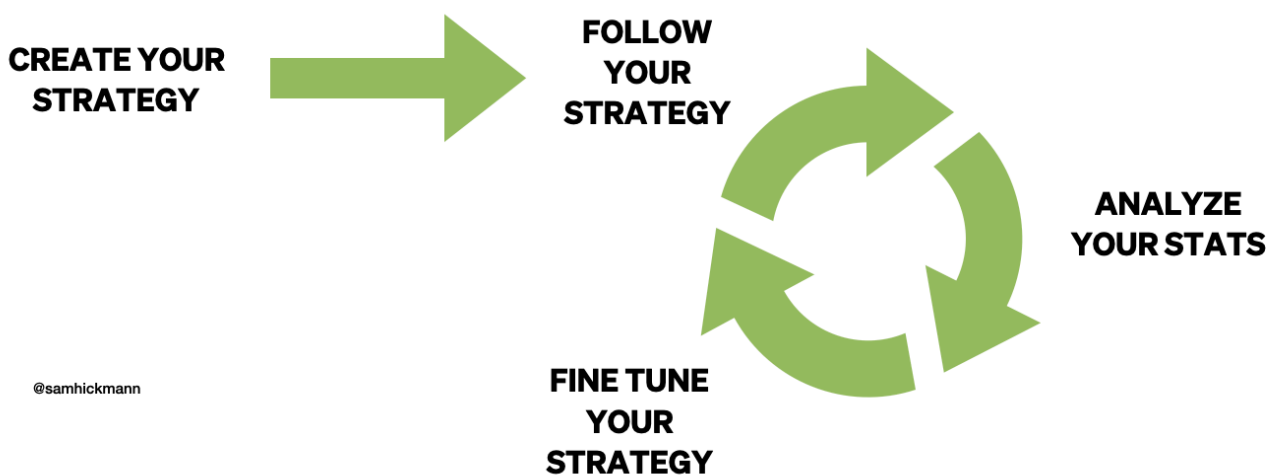
I've gotten incredibly disciplined over time. This is how my trading screen usually looks after a day of trading:



I keep track of all my trades. It allows me to go back in time and constantly improve. After all these years, I'm still filling a daily report card every day (see appendix for an example).

I also record each trading session using StreamLabs Desktop.

Consistency and discipline are key.



Start by **creating your own strategy**. Write it down. Backtest it on a variety of stocks and market conditions (what works in a bull market might not work in a down turn).

Strictly follow your strategy. It seems obvious but it's not. Don't change your strategy during a trading session. Either you stick with it or you give up for the day and move on to the next step.

Examine what went wrong and what you could have done better. Perhaps you take bad entries, don't let your winners run long enough, or don't cut your losers quickly enough. You must keep track of all trades and analyze your statistics.

Fine tune your strategy. Try not changing too much things at the same time otherwise you won't be able to see what caused the change. At the start of your journey, you will tweak your strategy more frequently. Then, as you gain experience, the less you will. It's important to always **perform backtesting**. I like using TradingView.com's Replay feature (see *screenshot below*). I go back in time, pick a random day, and practice. This is better than just looking at previous charts and already knowing the outcome.





“It was a dark and stormy market, but then the Dow rallied and the blue chips began to rise...”

Chapter 7 - When you should not trade

By choosing day trading, you accept that the journey will not be easy. You will feel both joy and pain. Some days will be completely ruined as a result of a significant loss. Stress, anxiety, FOMO (fear of missing out), uncertainty, and doubt (FUD) are all common emotions. All of these issues must be addressed and managed as soon as possible.

We all react to emotions differently. Some people become aggressive and want to punch holes in the wall, whereas others prefer to be alone and silent.

You must work on yourself so that your trading does not suffer.

Let's look at the times when you shouldn't trade (or be very careful).

During the FED Announcements

I learned the hard way over the years that you should never be in a trade when the FED chair is speaking. It's the same whether you have bad or good news. It causes significant market volatility. The oscillation's amplitude is insane.

For example, the annual inflation rate in the United States is 8.3% at the time I'm writing this book. The FED is working hard to get this rate below 3%. Every month or so, Wall Street speculates on how much the Federal Reserve will raise interest rates. The majority of the time, the guess is correct. The rate was raised by 0.75% at the last FED

meeting, but the chart below shows what happened while J. Powell was speaking, as well as what happened the next morning:



I always take notes during FOMC/FED meetings. Here is an example:

Sep 21, 2022:

“To lower inflation (still at +8.3% YoY, +6.03% core CPI), unanimous vote of the FOMC board members to hike the interest rate 75bps (aka 0.75%) immediately, as expected. (Hint 0.75% for Oct, and 0.50% for Nov)

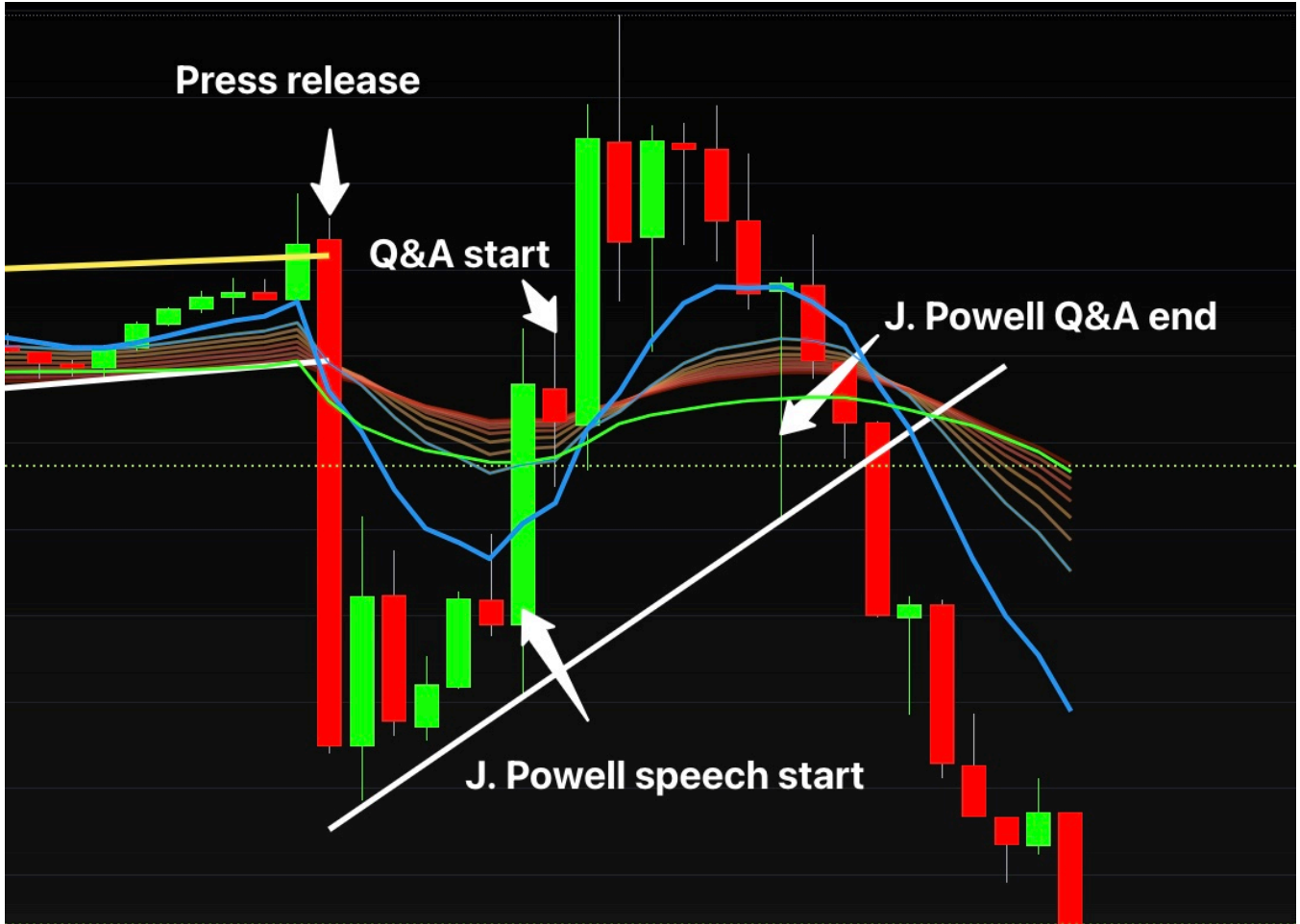
Fed see terminal rate at 4.6% in 2023, then 3.9% in 2024 but Wall Street expected 4.1% & 3.6%.

GDP growth to remain below trend (1.2% 2023)

Unemployment rate 3.8%: need to see applicants vs job openings balanced (today it's 1:2, and wages are going up). Projections 4.4% 2023.

During Q&A, J.Powell said housing market could/should go down 20%”

and here is a screenshot of the \$QQQ during the event:



By taking a step back, we can see that for several days prior to the announcement, the market was going sideways:



👉 **Conclusion: Avoid trading during FED events. I've tried. My statistics show that it's a bad idea in the long run.**

During company earnings announcements

If you've spent any time evaluating this type of trades, you know that it's nearly impossible to anticipate whether a company would routinely beat or miss earnings estimates (without illegal insider information that is). Of course, if we look at the history of earnings announcements, we can see that the vast majority will exceed their earnings guidance, but some of that is due to plain old-fashioned marketing. Set low expectations and exceed them, although this doesn't always work, especially if the stock price has already risen on the anticipation of better earnings.

Not only is it nearly hard to regularly predict the contents of the earnings announcement, but it is also nearly impossible to predict the stock's reaction. When a company's earnings are missed, its stock may nevertheless climb as a result of the news. Even if a company's results are higher than expected, its stock may still fall. The guidances in the earnings release may be more important than the actual earnings. After all, a stock price represents the discounted worth of future earnings, not previous earnings.

For instance, this is the 5-minute timeframe of META (ex-Facebook) during their July 2022 earnings call after the regular market hours. The volatility is extremely high and the chart looks like a roller coaster. Trading this is like gambling. Don't do it.



When you're mad

No revenge trading

You should never engage in revenge trading. If you are in the red for the day, your goal should not be to get back into the green as soon as possible, because doing so will force you to take larger trades (i.e. more risk) on less-than-ideal patterns. The deck is stacked against you. Because you're in the red for the day, your judgment has already been tainted, and taking more risks isn't the solution. You need to take a step back. Allow yourself a 10-minute break. Take a stroll. Make a cup of coffee for yourself. Then, with your mind clear, do the opposite of what I just described.

Stick to your strategy and trade at lower risk levels. Wait for a strong pattern to emerge. To increase your chances of winning, use the most convergent and good parameters.

When you're feeling sick

If you are not physically well, or if you have issues to resolve at work or in your personal life, you will be unable to focus fully and will lose, leading to a death spiral. Don't do it.

LOSERS GUIDE TO ONLINE TRADING

I THOUGHT YOU WERE SUPPOSED
TO BE A DAY TRADER!



Chapter 8 - Monitor your stats

Keeping track of your profit and loss is not enough. To learn and progress, you must closely monitor your trades. A simple spreadsheet can work just fine. In addition to my Daily Report Card (cf example in Appendix), I use Google Sheets, which I keep up to date on a daily basis.

I also use TraderSync to import all of my trades. This web app gives me additional statistics. They also allow you to track each pattern traded as well as the outcome.

You can reduce the amount of work as you gain experience, but I strongly advise you to take this part very seriously at the start of your day trading journey. It only takes about 20 minutes after your day's trading, but it will save you money and time in the long run.

Actually, I'm now convinced that the vast majority of day traders who lose money and then quit do so because they don't monitor their trades and thus don't learn from their mistakes.

Your statistics monitor your overall performance as well as the patterns that make you the most money, those that cost you the most money, and so on.

When you look at your statistics, you should be able to tell right away which areas need to be improved. This is true no matter where you are in your day trading journey.

Key metrics

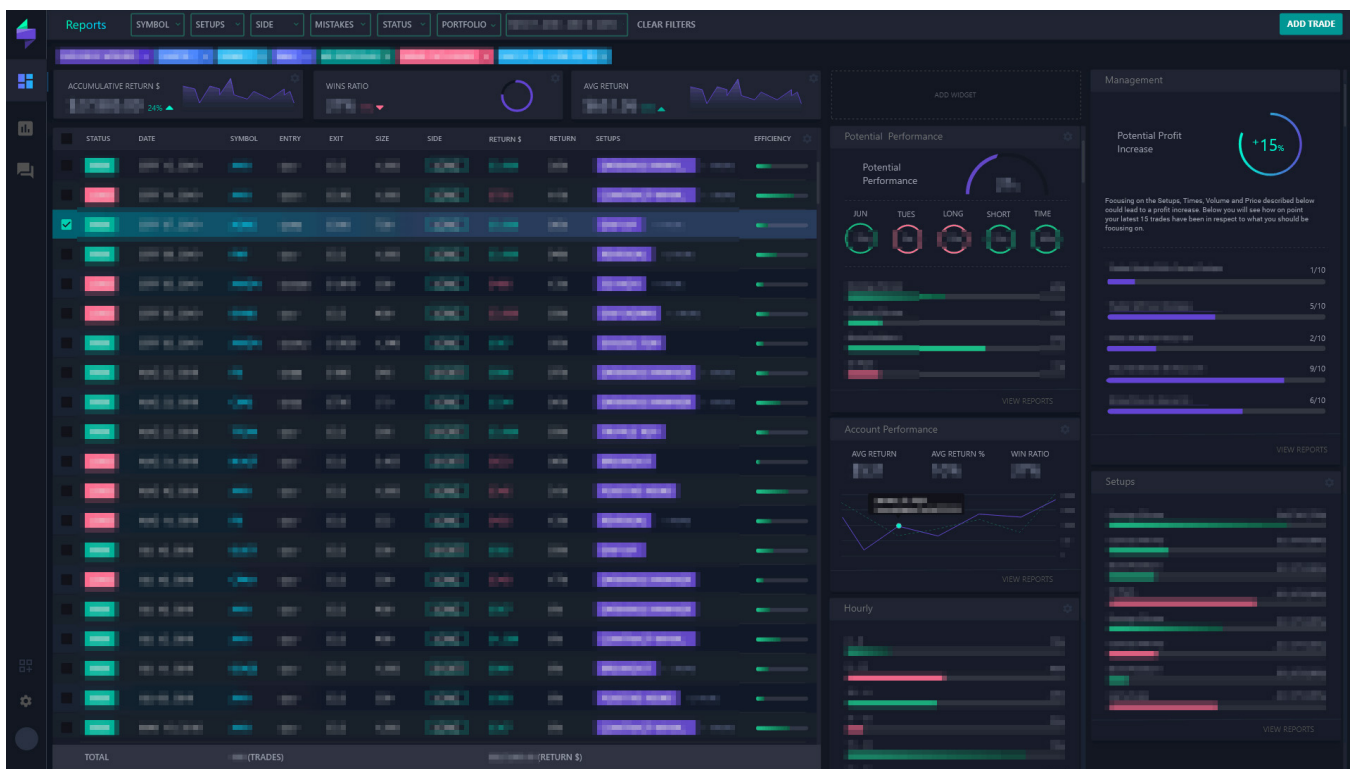
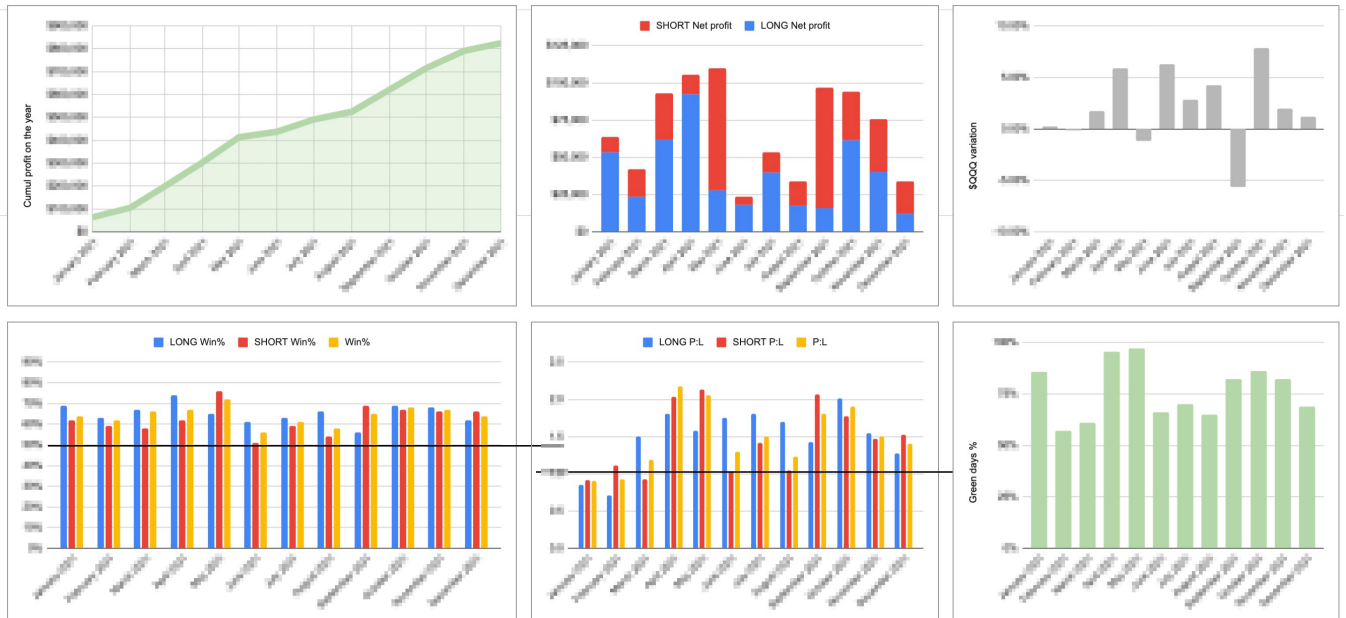
Besides the obvious, I recommend you to keep track of:

- Win/Loss ratio (success ratio, win %).
- Risk/Reward ratio
- Profit/Loss ratio
- Average profit per trade
- Max purchasing power used
- Your success rate per chart patterns
- Long/short ratio

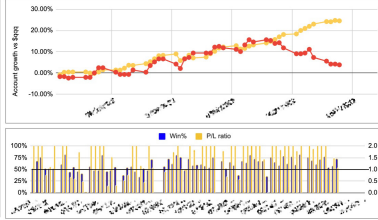
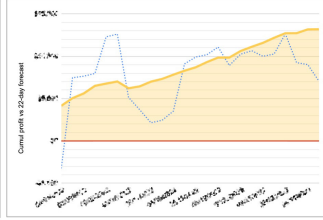
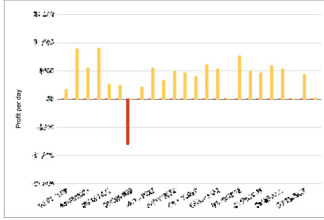
By the way, I also like to breakdown the above metrics per side (LONG win/loss ratio vs SHORT win/loss ratio for instance).

Examples of dashboards

MONTH	TOTAL							LONG SIDE				SHORT SIDE			
	Total Net profit	Cumul profit on the year	Win%	P:L	Green days %	# of trades	\$QQQ variation	LONG Net profit	LONG Win%	LONG P:L	LONG # of trades	SHORT Net profit	SHORT Win%	SHORT P:L	SHORT # of trades
January 2021	\$83,002	\$83,002	64%	0:8	88%	290	0.00%	\$53,214	66%	0:60	112	\$19,348	83%	0:92	57
February 2021	\$41,758	\$124,760	62%	0:93	57%	284	-8.15%	\$23,452	66%	0:71	104	\$19,348	89%	1:11	170
March 2021	\$83,776	\$208,536	60%	1:10	87%	296	1.72%	\$81,890	57%	1:5	293	\$18,788	89%	0:85	115
April 2021	\$105,458	\$313,994	67%	2:17	88%	317	0.91%	\$82,496	74%	1:4	173	\$19,350	83%	2:55	144
May 2021	\$100,081	\$413,875	72%	2:35	92%	362	-1.28%	\$27,812	66%	1:68	78	\$48,889	76%	2:15	228
June 2021	\$33,745	\$447,620	66%	1:5	88%	287	0.00%	\$18,892	57%	1:35	218	\$5,743	87%	1:65	74
July 2021	\$53,552	\$501,172	61%	1:5	78%	295	3.00%	\$38,780	66%	1:8	238	\$15,547	89%	1:41	85
August 2021	\$33,097	\$534,269	66%	1:20	89%	280	4.02%	\$17,847	66%	1:7	197	\$18,848	84%	1:65	129
September 2021	\$96,644	\$630,913	66%	1:8	82%	304	-5.88%	\$18,291	66%	1:45	81	\$68,443	89%	2:68	219
October 2021	\$84,000	\$714,913	66%	1:9	88%	306	7.00%	\$81,294	66%	2:61	237	\$19,749	87%	1:77	71
November 2021	\$76,660	\$791,573	67%	1:8	82%	287	2.00%	\$48,890	66%	1:54	188	\$19,130	86%	1:47	117
December 2021	\$33,720	\$825,293	64%	1:4	88%	283	1.15%	\$12,234	62%	1:27	188	\$21,499	86%	1:52	100



Week #	DATE	Stake start	Stake end	Withdrawing	P/L %	P/L	P/L cumul	P/L per trade	P/L ratio	P/L ratio >1	Win%	Win% 50%	# trades	# trade < 20	Acc. Profit	Acc. Loss	Max capital	# \$100s	P/L % max capital	QQQ %	QQQ %	Avg capital used (without leverage)	P/L cumul %	QQQ %	Win %
17	10/27/2021	1512146	1512137	11	0.0%	1512	1512	1512	1.0	1.0	67%	67%	9	0	1512	0	1512	1512	100%	100%	1512	100%	100%	67%	
18	10/28/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	63%	63%	8	0	1512	0	1512	1512	100%	100%	1512	100%	100%	63%	
19	10/29/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	80%	80%	5	0	1512	0	1512	1512	100%	100%	1512	100%	100%	80%	
20	10/30/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	71%	71%	7	0	1512	0	1512	1512	100%	100%	1512	100%	100%	71%	
21	10/31/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	67%	67%	6	0	1512	0	1512	1512	100%	100%	1512	100%	100%	67%	
22	11/1/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	67%	67%	15	0	1512	0	1512	1512	100%	100%	1512	100%	100%	67%	
23	11/2/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	34%	34%	3	0	1512	0	1512	1512	100%	100%	1512	100%	100%	34%	
24	11/3/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	75%	75%	3	0	1512	0	1512	1512	100%	100%	1512	100%	100%	75%	
25	11/4/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	68%	68%	17	0	1512	0	1512	1512	100%	100%	1512	100%	100%	68%	
26	11/5/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	63%	63%	14	0	1512	0	1512	1512	100%	100%	1512	100%	100%	63%	
27	11/6/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	57%	57%	13	0	1512	0	1512	1512	100%	100%	1512	100%	100%	57%	
28	11/7/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	62%	62%	26	0	1512	0	1512	1512	100%	100%	1512	100%	100%	62%	
29	11/8/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	76%	76%	20	0	1512	0	1512	1512	100%	100%	1512	100%	100%	76%	
30	11/9/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	59%	59%	22	0	1512	0	1512	1512	100%	100%	1512	100%	100%	59%	
31	11/10/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	81%	81%	15	0	1512	0	1512	1512	100%	100%	1512	100%	100%	81%	
32	11/11/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	75%	75%	12	0	1512	0	1512	1512	100%	100%	1512	100%	100%	75%	
33	11/12/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	68%	68%	19	0	1512	0	1512	1512	100%	100%	1512	100%	100%	68%	
34	11/13/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	63%	63%	20	0	1512	0	1512	1512	100%	100%	1512	100%	100%	63%	
35	11/14/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	70%	70%	20	0	1512	0	1512	1512	100%	100%	1512	100%	100%	70%	
36	11/15/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	76%	76%	17	0	1512	0	1512	1512	100%	100%	1512	100%	100%	76%	
37	11/16/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	52%	52%	21	0	1512	0	1512	1512	100%	100%	1512	100%	100%	52%	
38	11/17/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	58%	58%	25	0	1512	0	1512	1512	100%	100%	1512	100%	100%	58%	
39	11/18/2021	1512137	1512137	0	0.0%	0	1512	1512	1.0	1.0	71%	71%	14	0	1512	0	1512	1512	100%	100%	1512	100%	100%	71%	



Conclusion

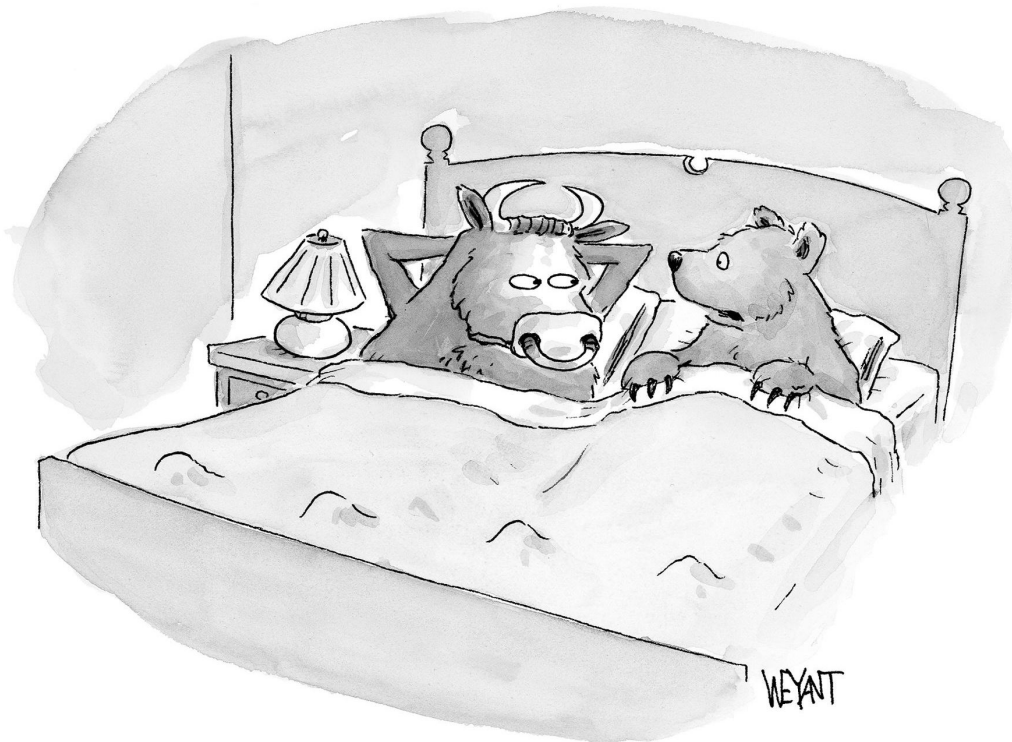
If you made it this far, you are ready to win. I really hope that the information in this book was useful to you. Though it took me longer than I had hoped to write it, I am fully dedicated to regularly updating this book with fresh data and new tactics as they emerge in the future.

If you subscribe to www.day-trading-that-works.com, you'll get full access to the website as well as email newsletters about new content when it's available.

You can also follow the twitter account [@daytradingworks](https://twitter.com/daytradingworks) to get my notes and my thoughts on the market, and use the hashtag #dttw

I hope that we can keep in touch. Email me at sam@day-trading-that-works.com about your challenges, strategies, and successes. If you ask me a question, I'll do my best to respond within 48 hours.

Onward 🤘



“Sure, it may be great for us, but it’s hell on the markets.”

Appendix

- Daily Report Card
- CPI data, FED rate, jobs report
- Pattern examples

Daily Report Card

You can make a Google Sheets working copy from www.day-trading-that-works.com/downloads/

DAILY REPORT CARD

Legend Yellow = to fill

PRE-MARKET

Date **10/06/2022**

Based on higher timeframes and pre-market moves, what is my sentiment for the overall market today?

I see sideways price action and an inside day because Yesterday we saw a big red to green move, with \$QQQ up 3.10% from the low. No particular news in the press.

MY TRADES

Time	Ticker	Pattern number	First entry	Side	Max Risk	Profit	R:R	Max capital engaged	Comments
1	8:02	\$AMD	C8d	Bounce from resistance	Short				Rebounded from previous day resistance. Took a quick scalp
2	8:09	\$AMD	C8d	Bounce from resistance	Short				Bounced again from VWAP and this time, breakout upward
3	8:27	\$AMD	A2u	Dip on breakout	Long				Quick scalp. Did feel weak.
4	8:35	\$AMD	D1d	Breakout downward	Short				Risky short above VWAP. Quick scalp.
5	8:37	\$AMD	D1d	Breakout downward	Short				Second try. Moved SL to BE quickly. Bounce from VWAP, again!
6	8:49	\$AMD	D1d	Retest of the breakout downward	Short				Spotted a head and shoulders pattern. Good trade finally. 5' trailing SL
7	10:04	\$AMD	A8d	Downward breakout	Short				My decision was on the bigger timeframe with a sym triangle. Below \$69 and VWAP. False breakout. SL untouched.
8									
9									

W 6
L 1

Debriefing on my trading, specific news, what could have done better

Day was as expected. \$AMD -0.13% on the day. Sideways. Should have sized more on the last trade.

SUMMARY OF THE DAY

Profit for the day	\$1,214	0.96%	P/L Ratio	6.4
Return on winners	\$1,214	Losers	Win %	86%
\$QQQ %	-0.79%		Max capital (margin included)	\$1,000,000

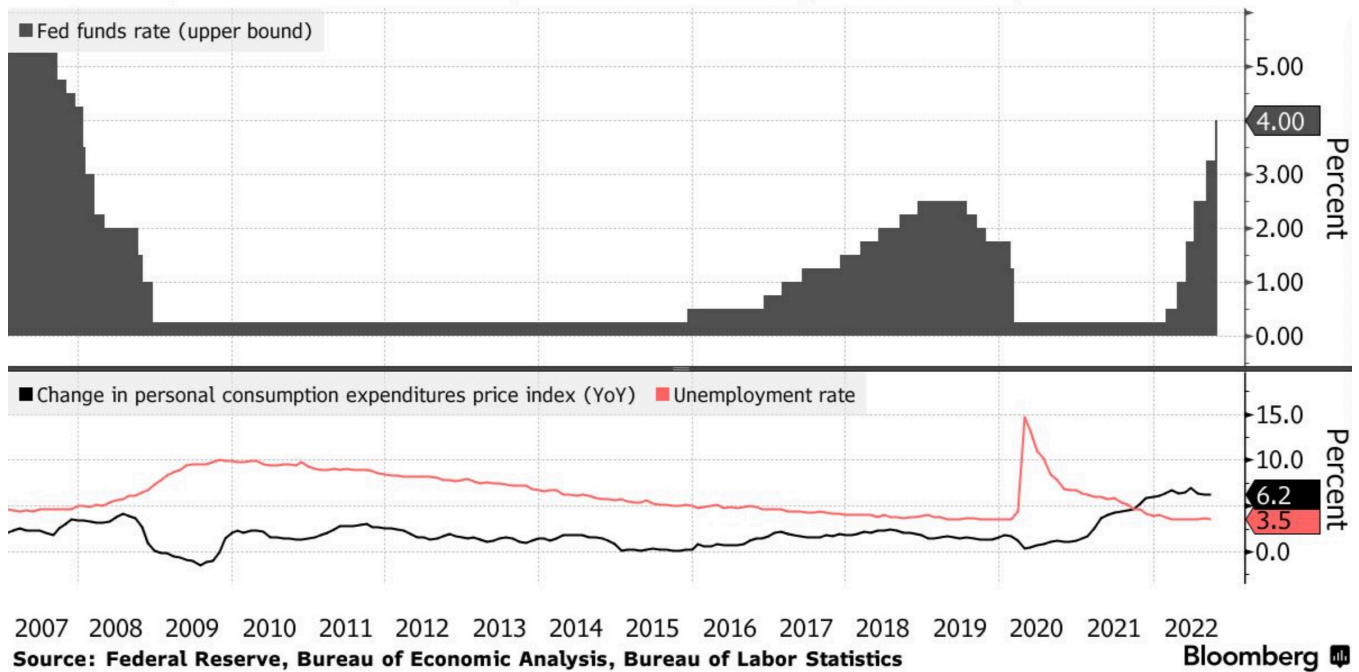
Charts



CPI data, FED funds rate, jobs report

Fed Extends Series of Huge Interest-Rate Hikes

Persistent, elevated inflation explains fourth-straight 75 basis-point move



During your trading career, you'll choose several financial sources to keep up with the news. However, there are 3 financial data that you must keep an eye on the minute they get released: CPI data (inflation), FED rate and jobs report.

I personally write my notes down on my \$QQQ chart:



White icon for CPI data, red icon for FED, yellow for jobs reports.

CPI, most popular indicator of inflation

<https://www.bls.gov/cpi/>

The screenshot shows the U.S. Bureau of Labor Statistics website. At the top, there is a navigation bar with links for HOME, SUBJECTS, DATA TOOLS, PUBLICATIONS, ECONOMIC RELEASES, CLASSROOM, and BETA. Below this is a search bar and a navigation menu for the Consumer Price Index, including links for CPI Home, CPI Publications, CPI Data, CPI Methods, About CPI, and Contact CPI. A news release is highlighted with a yellow box, titled "CPI for all items rises 0.1% in August as shelter and food increase, gasoline falls". The news release text states: "In August, the Consumer Price Index for All Urban Consumers increased 0.1 percent, seasonally adjusted, and rose 8.3 percent over the last 12 months, not seasonally adjusted. The index for all items less food and energy increased 0.6 percent in August (SA); up 6.3 percent over the year (NSA)." To the left of the news release is a bar chart titled "12-month percentage change, Consumer Price Index, selected categories, August 2022, not seasonally adjusted". The chart shows the percentage change for four categories: All items (approximately 8.3%), Food (approximately 11.5%), Energy (approximately 24.5%), and All items less food and energy (approximately 6.3%).

Category	Percent Change
All items	8.3%
Food	11.5%
Energy	24.5%
All items less food and energy	6.3%

The Consumer Price Index tracks the average price movement of a basket of goods and services purchased by consumers.

Policymakers, financial markets, businesses, and consumers all utilize the CPI, but it is by far the most popular indicator of inflation.

The widely-cited CPI is calculated using an index that includes 93% of the U.S. population;

About 94,000 price quotes are received monthly from about 23,000 retail and service companies and 43,000 rental housing units to calculate the CPI.

Nearly a third of the Consumer Price Index is attributable to the rising cost of shelter, which may be estimated using rents. Owned housing units themselves are not priced in the CPI as they are viewed as capital (or investment) goods and therefore not as consumption

goods. Landlords may use CPI information to adequately assess what annual rent increases for renters should be.

The Consumer Price Index (CPI) has received a lot of backlash over the years for allegedly under- or overestimating inflation. In comparison to its actual share of GDP, healthcare receives a far smaller weight in the CPI than it deserves because it is based on consumer expenditure rather than third-party reimbursements. However, economists are often unwilling to give much credence to complaints about the CPI's quality adjustments.

The Fed bases its economic policy decisions on CPI data. The Federal Reserve, which has set a target inflation rate of 3%, can use monetary policy to either stimulate or contract the economy, depending on whether or not inflation is running too high. The Federal Reserve will change the Fed funds rate if the CPI shows inflation that is higher than expected.

Each month, usually on the thirteenth day, 1 hour before the market open, CPI data are released on the U.S. Bureau of Labor Statistics website.

You mainly need to compare released data to expected data:

CPI Month-over-Month change (e.g. +0.2%)

CPI Year-over-Year change (e.g. 8.1%)

Core CPI (exclude food and energy) MoM (e.g. +0.4%)

Core CPI YoY (e.g. +6.5%)

Be wary, though, because the market may react differently to a piece of news than you do. For instance, the CPI report (worse than anticipated) for October 13, 2022 caused a sudden 4% drop in the market immediately after it was released, followed by one of the largest intraday recoveries in over 2 years, totaling to over 6%.

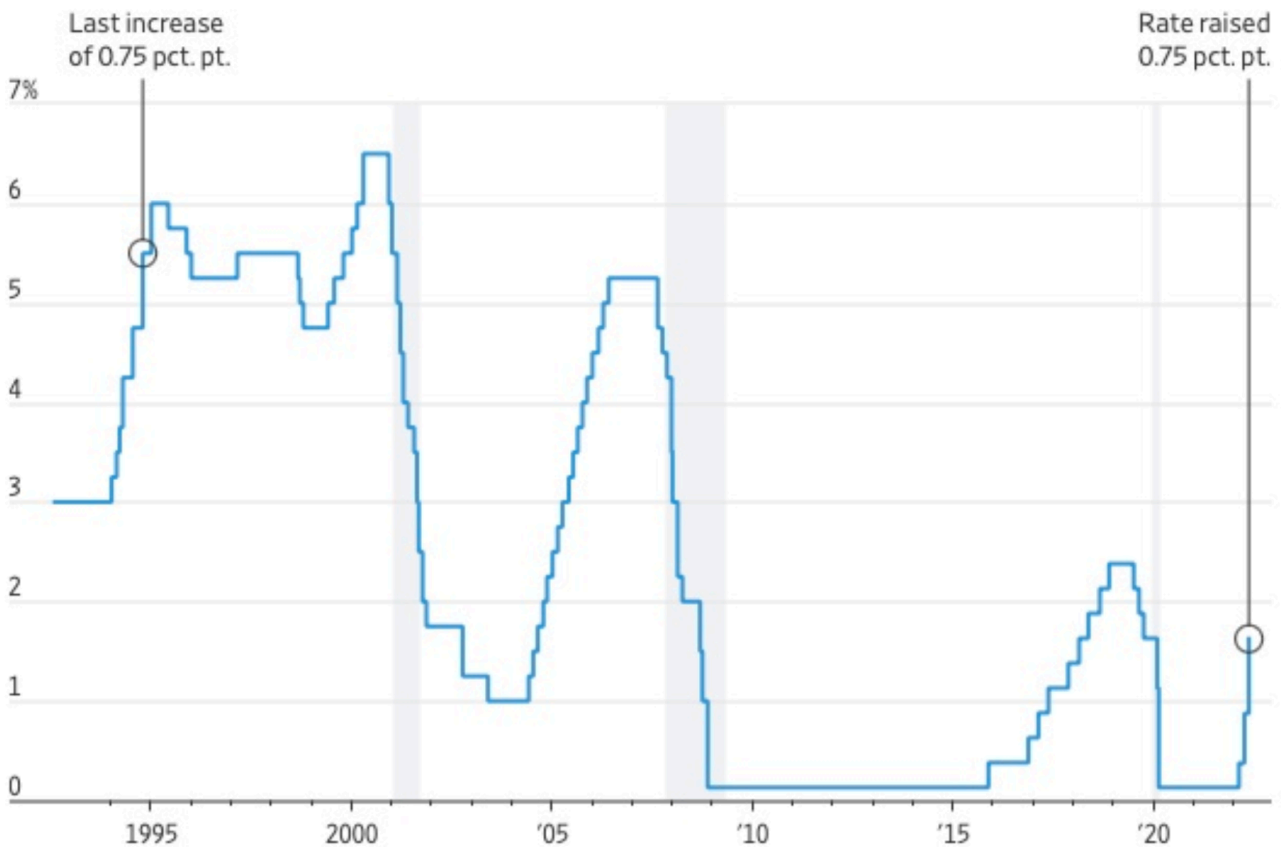


FED funds rate

<https://fred.stlouisfed.org/series/FEDFUNDS>

What is this interest rate the FED keeps changing?

Federal-funds target rate



Note: Chart shows midpoint of range since 2008.

Source: Federal Reserve

The Federal Funds Rate (FFR) is the target interest rate set by the Federal Reserve System (FED)'s policy-making body (FOMC). This target is the rate at which the Fed suggests commercial banks borrow and lend their excess reserves overnight to each other.

The FOMC meets 8 times a year to set the target FFR. This is supposed to promote economic growth. The overnight lending market sets the actual rate based on commercial banks' short-term reserves. If the market strays too far, the Fed intervenes.

Banks must keep a certain percentage of their deposits in a Federal Reserve account. A bank's reserve requirement is a percentage of its total deposits. End-of-day bank account balances averaged over two-week reserve maintenance periods are used to determine reserve requirements.

If a bank expects to have end-of-day balances above what's needed, it can lend the excess to another institution.

The FOMC adjusts interest rates based on economic indicators that show inflation, recession, or other issues that affect economic growth. Core inflation and durable goods orders are indicators.

In response to economic conditions, the FFR target has changed over time. In the early 1980s, inflation pushed it to 20%. During the Great Recession of 2007-2009, the rate was slashed to 0.15 percent to encourage growth.

Inflation picked up in May 2022 despite earlier rate hikes, prompting several 0.75 percent point increases. The largest increases since 1994. The terminal rate might rise to around 4.66%.

You can see a sample of the notes I take every time the FED chair gives a speech in Chapter 7.

Jobs report

<https://www.bls.gov/ces/>

Current Employment Statistics - CES (National)

Search Current Employment Go

CES Home

CES Publications ▾






CES Data ▾

CES Methods ▾

About CES ▾

Contact CES

CES Latest Numbers

CHANGE IN TOTAL NONFARM PAYROLL EMPLOYMENT:		
+263,000(p)	in Sep 2022	
CHANGE IN TOTAL PRIVATE AVERAGE HOURLY EARNINGS FOR ALL EMPLOYEES:		
+\$0.10(p)	in Sep 2022	
CHANGE IN TOTAL PRIVATE AVERAGE WEEKLY HOURS FOR ALL EMPLOYEES:		
unchanged	in Sep 2022	
PERCENT CHANGE IN TOTAL PRIVATE AGGREGATE WEEKLY HOURS FOR ALL EMPLOYEES:		
+0.2%(p)	in Sep 2022	

The Employment Situation report is typically released on the third Friday after the conclusion of the reference week, i.e., the week which includes the 12th of the month.

Here is an example of the notes I take when the jobs report is released:

“Expected 250,000 jobs (non-farm) to be created, got 263,000.

Labor force participation rate fell to 62.3%

Headline unemployment rate fell from 3.7% to 3.5%

Job openings almost twice as unemployment (11M vs 5.8M).

Putting more pressure on the FED. Must narrow down its effort against inflation by taking care of the labor market.

For instance, YoY wage increase for someone who kept their job: 7.5%.

Increase in wage for someone who quit and took another job: 15%.

Terminal FED rate forecast: 4.66%. Next FOMC meeting in November will likely have another 0.75% rate increase. Inflation rate expectation for next CPI report is now 8.1%.

The market is turning red today. Nasdaq down 3.6% mid-session.”

You can also find these notes as soon as I publish them on www.day-trading-that-works.com

Pattern examples



D7 downward breakout



E2 upward breakout





D2 upward breakout



D2 downward breakout



! With the D2 pattern, I've seen that people tend to enter the trade too soon. Not only must you wait for confirmation (the breakout of the support line), but you should also have a toping tail (shooting star), be far from VWAP, and a very extended move. Otherwise, you risk becoming stuck in the middle of a parabolic move. It will eventually break down, but you will either be stopped out before it does, or you will be “negative unrealized profit” and extremely stressed while waiting for the reversal.



“Day trading? What’s made in a minute is lost in a second.”



B2 upward breakout



B2 downward breakout





A2 upward breakout



A2 downward breakout



A7 upward breakout



A7 downward breakout



E7 upward breakout



E7 downward breakout



E8 upward breakout



E8 downward breakout





A1 upward breakout



A1 downward breakout



A3 upward breakout



A3 downward breakout



A4 downward breakout



A5 upward breakout



A6 upward breakout



A8 downward breakout



B1 upward breakout



B1 downward breakout



B2 upward breakout



B7 upward breakout



B7 downward breakout



B8 downward breakout



C2 upward breakout



C2 downward breakout



C7 upward breakout



C7 downward breakout



C8 upward breakout



C8 downward breakout



D1 upward breakout



D1 downward breakout



D3 downward breakout



D4 downward breakout



D5 upward breakout



D5 downward breakout



D8 downward breakout



E4 upward breakout



E4 downward breakout



E5 upward breakout

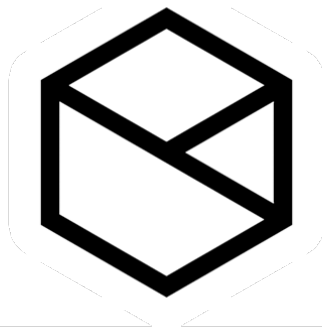


E6 upward breakout



E6 downward breakout





the idea company
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Day Trading That Works.

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Why I wrote this book

"Those who do not remember the past are condemned to repeat it." - Benjamin Graham, The Intelligent Investor

Teaching others is a great approach to ensure that you have a thorough understanding of the material yourself. Writing this book gave me the opportunity to challenge myself, my routine, and my strategies.

I started day trading in 2017. At first, I was very unsuccessful financially. Nearly all of my missteps might have been prevented if someone had taken the time to tell me the things I detail in this book.

I designed this book to help you avoid wasting time and money while rapidly progressing toward your goal of being a successful day trader.



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