Bij Investment Consultants

DAY TRADING BASICS

Developing Trading Plan

Why Day Trading?

- To become **Rich**
- To become **Wealthy**

Difference

- Being **Rich**" means having ***a lot of money***.

- "Being **Wealthy**" means that we ***actually have time to enjoy our money***, time to do what we want to do when we want to do it.

Why Day Trading?

Here's one way to become Rich:

- Work way up to the position of **an executive** in a corporation and make hundreds of thousands of dollars a year.

Of course, we'll be working at **least 10 hours per day and at least 6 days per week.**

Here are three ways to become Wealthy:

1.) Starting Own Company or Internet Business

2.) Investing in Real Estate

3.) Day Trading

Why Day Trading?

Benefits of Day Trading

1. It's the total "**equal opportunity**" job
2. **No employees** to hire
3. **No inventory**, office space, or other equipment
4. No vendors, **no customers**, no invoices, no accounts receivable
5. The **time required is minimal**
6. **Low capital** requirement
7. **Returns** are almost **instantaneous**
8. **Low transaction cost**
9. You **don't need much** to get started

Day Trading Mindset

Why Day Trading?

- **Day trading is not for everyone.**
- There are **many advantages**, but there are also **some "Negative" factors.**
- The main is **Huge Losses**.
- As a trader, ***losses are part of our business***.
- **If we can't accept that fact, we simply shouldn't trade.**
- No one get rich on just a single trade.
- Trying to hit Big Profits in just one trade is a sure way to **face Big Losses**.
- The **key is consistency**.

Required Mindset

1. Play Above the Line

- Taking OWNERSHIP for every thing
- Never BLAME, EXCUSE, or DENY that there's a problem,
- Be ACCOUNTABLE for trading decisions and actions,
- Take RESPONSIBILITY for doing something about it.

2. Have a Positive Attitude

- Trading can be simple, but it is not easy. Along the line, Losses may be there, but need to get up every single morning believing in our self, our strategy, and WINNING.
- Have set Reminder of "**The Law of Attraction**"

Required Mindset

3. Exercise Honesty

- Have we overtraded this week?
- We let our emotions get the best of us?
- We didn't stick to the strategy? Fine – these things happen to the best of us. **But don't lie to self…**

4. Be Committed

- Trading success will **not happen overnight**.
- It requires **Commitment, Time, and Effort** on Trader's part.
- "Traders" think they know everything, don't have to learn anything; they believe a "**Magic System**" will place their trades and make them rich. this is a **Sure Path To Failure.**

Possible to Make a Living As a Day Trader?

"Yes, it is possible!"

For Full-time Day Traders

- Determine How much is required for 'a living?'
- "**Making a Living**" is a very broad term.
- **Example :** Let's assume that One want to make Rs. **6,00,000/ Year**. So it Would be **50000/Month** and **12500/Week**.

Most Important Note: Don't set daily targets when we trade.

In order to make money, two conditions have to be met:

- 1.) **One** have to be **ready** to trade.
- 2.) **THE MARKET** must be **ready** to be traded.

How to Get Started?

Define Goals and Make a Plan

- Successful trading requires **Knowledge, Skill And Experience**.
- Before diving in, need to determine what our goals are.
  - What do we hope to achieve with our trading activities?
  - Why do we want to trade?

Examples of Goals:

- To buy a bigger house?
- To make Rs. 100,000 a year / month / week?
- To make a full-time income to support our entire family?
- To work less and enjoy more time with loved ones?

BUT BE REALISTIC

Define Goals and Make a Plan

How to Get Started?

1. Define SMART Goal

- **S**pecific
- **M**easurable
- **A**ttractive
- **R**ealistic
- **T**imeframe

Define a goal that meets all of these criteria.

- Simply specify exactly how much money we would like to make per month with our day trading.

Example: I want to make Rs. 1,00,000 per month with day trading.

2. Make a Plan

- Regardless of what we're doing, we should first define WHAT we want to accomplish, and then plan **HOW to achieve** that goal. Otherwise might find out that started climbing up the wrong ladder right at the very beginning.

3. Execute the Plan

- Once preparing plan, we need to actually execute it.
- We blame the plan: "it's too hard," "it's impossible," "it doesn't work." This isn't true. We don't succeed because we **are simply too lazy**, or we **don't have the discipline to execute our plan**.

How Much Money Need to Get Started?

The **answer** to that question depends on the market we want to trade.

- If want to Day Trade in **Stocks**, then need atleast **Rs. 2,00,000 to Rs.5,00,000** in trading account.
- If want to Day Trade **Futures**, then should have between **Rs. 1,00,000 to Rs. 3,00,000** in trading account.
- When trading **Options**, should have between **Rs. 10,000 to Rs. 1,00,000** in trading account.
- If thinking about trading **Forex**, then can start with as little as **Rs. 5,000** in trading account.

How Much Money Need to Get Started?

Financial Considerations:

- Don't make the **common mistake** of letting current financial situation dictate which market we're going to trade.
- If don't have sufficient funds to trade the markets outlined in our goals, then start doing something about it now.
- But **don't begin trading** in a market that isn't right for us and our goals. Its better to wait for funds.
- Should not trade all the savings.
- First determine what the financial goals are and how much we can **actually afford to lose.**

How Much Money Need to Get Started?

Financial Considerations:

- It's important to keep **three to six months of living expenses** in a readily accessible savings account, so set that money aside, and don't trade it!
- We should <u>never trade money that may be needed immediately</u>.
- Take a good look at how much money we can currently afford to trade.
- If don't want other <u>parts of life to suffer</u> when we tie our money up in a trade, so make sure to consider what these savings were originally for.

How to Get Started?

Determining Risk Tolerance

- Each individual has a risk tolerance that should not be ignored.
- Find investments that do not exceed that Risk Tolerance.
- First, need to know how much money have to be invested, and what our Investment and Financial Goals are.
- **For Example**, if we plan on **retiring in ten years**, and we haven't saved a single penny yet, we'll need to have a **high risk tolerance**, because we'll need to do some aggressive trading in order to reach achieve financial goal.
- On the otherhand, if we're in our **early twenties** and we want to start investing for our retirement, our **risk tolerance can be low**. we can afford to watch our money grow slowly over time.

Determining Risk Tolerance

- Need for a high risk tolerance or low risk tolerance really have **no bearing on how we feel about risk**, there is much more in determining tolerance.
- **For Example**, we entered a trade, and see that trade going against the trade, what would we do?
- Let's say we are facing a Rs.1000 loss. Would we sell out, or would we stay in the trade? If we have a low tolerance for risk, we would want to sell out. If we have a high tolerance, we would wait and see what happens.
- This decision is **not based on what our financial goals are**.
- This tolerance is based on **how we feel about our money.**

Determining Risk Tolerance

- **Account size** plays a vital role in determining risk tolerance.
- If we have a Rs. 20000 account, then a Rs. 10,000 loss might make nervous, since losing 50% of capital.
- But if trading account size is Rs. 10,00,000, and facing a Rs.10,000 loss, we might be more relaxed, since it is only 1% of account size.
- **Emotions** are a very important factor in trading; therefore, it's important to take the time to determine risk tolerance.
- Talk to a professional if needed.
- A good trading coach, financial advisor, or broker can be helpful.

How to Get Started?

Basic Needs to Begin Trading

1. **A Computer**
   - Pentium IV-class or higher series computer
   - Processor 1 GHz or greater
   - Windows 7 or Upper Version
   - 1GB RAM or more
   - 64 GB or greater of hard disk space
2. **An Internet Connection**
   - Broadband or Wi-Fi with speed 1mbps or more

Basic Needs to Begin Trading

3. A Charting Software

Main Features

- Real-Time Data
- Market Data Coverage
- Wide Variety of Indicators
- Competitive Rates & Money Back Guarantee
- User Friendly Platform & Complete Training
- Reputable Company

Basic Needs to Begin Trading

4. A Broker

- **Full-service** brokers can usually offer more types of investments, may provide with investment advice, and are usually paid in commissions.
- **Discount brokers** typically do not offer any advice or research; they just do as we ask them to do, without all of the bells and whistles.

- **Remember,** the broker or brokerage is going to be a teammate when it comes to making us a wealthy person. So be picky and be cautious.

Basic Needs to Begin Trading

How to Get Started?

5. A properly funded Trading Account

- We need money to trade. But we've heard: **"Don't trade with money that we can't afford to lose."**
- **Example:** A Trader whose wife had given him a deadline: if he was not trading profitably within the next four weeks, he would have to stop trading altogether and get a 'real job.'
- Now imagine will he feel cool and relaxed when he enters a trade? will he be in control of his emotions? If he loses a few trades, still he'll stick to his trading strategy and plan?

6. A good trading strategy

Develop Own Day Trading Strategy

Strategy Development Steps

Step 1: Selecting a Market

Step 2: Selecting a Timeframe

Step 3: Selecting a Trading Style

Step 4: Defining Entry Points

Step 5: Defining Exit Points

Step 6: Evaluating Trading Strategy

Step 7: Improving Trading Strategy

Develop Own Day Trading Strategy

Strategy Development Steps

Step 1: Selecting a Market

Main Markets:

- Stocks,
- Futures
  - Equities,
  - Commodities,
  - Forex,
- Options,
  - Equities and Forex

Strategy Development Steps

Step 1: Selecting a Market

Market Selection Criteria

1. Low Initial Capital Requirements

- Low initial capital means starting day trading activities with a low initial deposit.

2. Leverage

- With sound risk management in place, highly leveraged markets allow us to place a small amount of capital into the market and realize larger profit potentials. This will enable us to build up a small account quickly.

Strategy Development Steps

Step 1: Selecting a Market

Market Selection Criteria

3. Liquidity

- The main focus is on liquid markets to avoid problems caused by market manipulation and slippage.

4.) Volatility

- We can make money in any market, as long as it's moving. A market that's just going sideways and doesn't move in any direction is extremely difficult to trade.

Step 2: Selecting a Timeframe

- Popular intraday timeframes are *60-minute, 30-minute, 15-minute, 10- minute, 5-minute, 3-minute, and 1-minute*.
- When we select a **Smaller Timeframe** (less than 60 minutes), usually results in average Low Profit per trade, but get *More Trading Opportunities*.
- When trading on a **Larger Timeframe**, results in average Bigger Profit per trade, but will have *Fewer Trading Opportunities*.
- Smaller timeframes mean **smaller profits**, but usually **smaller risk**, too.

Strategy Development Steps

Develop Own Day Trading Strategy

Step 2: Selecting a Timeframe

Possible Time Frame Combinations			
Sr. No.	Long Term	Intermediate Term	Short Term
1	Year	Quarter	Week
2	Quarter	Month	Week
3	Month	Week	Day
4	Week	Day	Hour
5	Day	Hour	10/15 Minutes
6	Hour	15 Minutes	5 Minutes
7	15 Minutes	5 Minutes	1 Minute

Step 2: Selecting a Timeframe

- **Recommended Timeframe**: 15-minutes charts.
- This timeframe is enough for to capture the nice intraday moves, also eliminates the noise in the market and correctly **displays the "True Trends**."
- Always experiment with different timeframes.
- A trading strategy that doesn't work on a small timeframe might work on a larger timeframe and vice versa.
- If with the 15-Minutes Chart results, change the timeframe first before changing the entry or exit rules.

Strategy Development Steps

Step 3: Selecting a Trading Approach

- **Fundamental Analysis**

Is the study of basic, underlying factors that affect the supply and demand of the contracts which are being traded. Fundamental analysis looks at the CAUSE of market movement.

- **Technical Analysis**

"Technical analysis is the study of market action, primarily through the use of charts, for the purpose of forecasting future price trends."

DURATION BASED TRADING

1. Long Term-PASSIVE
2. Medium Term- PASSIVE
3. Short-Term- ACTIVE
4. Day Trading- ACTIVE

SPECIFIC TRADING TYPES

1. Buy and Hold Investing
2. Position Trading
3. Swing Trading
4. Overnight Trading
5. Day Trading

SPECIFIC TRADING TYPES

Buy-and-Hold Investing

AIM : Long-term Capital Gains

STYLE : Fundamental Analysis of Sectors And Companies

HOLDING TIME : 6 Months or Longer

TIME INVESTMENT : A Few Hours Each Month

TURNOVER RATE : 1 To 5 Trades Per Year

COMMISSION COSTS : Minimal

EXPECTED ANNUAL RETURN: +15% or More

SPECIFIC TRADING TYPES

Position Trading

AIM : Quarterly Income

STYLE : Technical Analysis of Weekly/Daily Charts

HOLDING TIME : 30 To 90 Trading Days

TIME INVESTMENT : A Few Hours Each Week

TURNOVER RATE : 1 To 5 Trades Per Month

COMMISSION COSTS : Moderately Low

EXPECTED ANNUAL RETURN: +25% or More

SPECIFIC TRADING TYPES

Swing Trading

AIM : Monthly Income

STYLE : Technical Analysis of Daily/Hourly Charts

HOLDING TIME : 3 to 30 Trading Days

TIME INVESTMENT : 1 to 3 Hours Each Day

TURNOVER RATE : 3 to 5 Trades Per Week

COMMISSION COSTS : Moderately High

EXPECTED ANNUAL RETURN: +50% or More

SPECIFIC TRADING TYPES

Overnight Trading

AIM : Weekly Income

STYLE : Technical Analysis of Daily/Hourly Charts

HOLDING TIME : 2 Days Maximum (BTST-STBT)

TIME INVESTMENT : 6 to 8 Hours Each Day

TURNOVER RATE : 2 to 5 Trades Per Day

COMMISSION COSTS : Moderately High

EXPECTED ANNUAL RETURN: +60% or More

SPECIFIC TRADING TYPES

Day Trading

AIM : Daily Income

STYLE : Technical Analysis of Intraday Charts

HOLDING TIME : Minutes To Hours, 1 Day Maximum

TIME INVESTMENT : 8 to 12 hours each day

TURNOVER RATE : 10 or more trades per day

COMMISSION COSTS : very high

EXPECTED ANNUAL RETURN : **+70% or More**

TRADING METHODS

1. Intuitive Trading
2. Pivot Trading
3. Price Action Trading
4. Scalping-Fading
5. Momentum Trading

TRADING TYPES

Based on Trend

1. Trend Following
2. Contrarian Trading
3. Range Trading

MAJOR ENTRY POINTS

1. Breakouts
2. Over Bought – Over Sold
3. Divergences
4. Signal based Trading

Develop Own Day Trading Strategy

Strategy Development Steps

Step 4: Defining Entry Points

A. Breakouts

1. Trendline
2. Channel Line-Support/Resistance
3. Chart Pattern
4. Volume

B. Pullbacks-Bounces

C. Crossovers

1. Moving Average
2. Bollinger Band
3. Day High Volume BS at 50% Strategy

Develop Own Day Trading Strategy

Strategy Development Steps

Step 4: Defining Entry Points

D. Trend-Counter Trend Trading

E. Other

1. Bar Chart Pattern

a. New High and Close below Previous Close-Sell

b. New Low and Close above Previous Close-Buy

2. Pivot Point Trading

a. Buy Supports-Bottoms

b. Sell Resistance-Tops

3. Pattern Inside Trading

Strategy Development Steps

Step 4: Defining Entry Points

4. Gap Trading

5. Fibonacci Retracement

6. Candlestick Pattern Trading

a. Bullish/Bearish Engulf Pattern

b. Dark Cloud Cover / Piercing Line

c. Belt Hold +ve / -ve

d. Inside Candle Reversal Pattern

e. Outside Up/Down Pattern

Strategy Development Steps

Step 4: Defining Entry Points

6. Candlestick Pattern Trading

f. Advance Block +ve / -ve

g. Three White Soldiers-Three Black Crows

h. Hammers / Hanging man / Shooting Star

7. Indicator Trading

a. Parabolic SAR / Fractal Trading

b. Bollinger Band M Top/ W Bottom Reversal/UB-LB

Strategy Development Steps

Step 4: Defining Entry Points

7. Indicator Trading

c. Stochastic OB-OS, Trend, Divergence, Bull Bear Setup

d. MACD Signal / Zero Line Crossover

e. MACD Trend, Divergence

f. RSI OB-OS, Trend, Divergence, Failure Swings, +ve / -ve Reversal

g. ATR Analysis

h. ADX Trend Trading

i. +DMI / -DMI with Huge Gap

Strategy Development Steps

Step 5: Defining Exit Points

The saying: “A monkey can enter a trade, but money is made (and lost) when we EXIT it.”

- Most traders are right about the direction of the market when they enter a trade, but they end up taking a loss because they fail to capture profits at the right time.
- Knowing HOW and WHEN to exit a trade will ultimately determine our success or failure as a trader.

Step 5: Defining Exit Points

There are three different exit rules we should apply:

- Stop loss rules to protect our capital.
- Profit-taking exits to realize our gains.
- Time-stops to get us out of a trade and free our capital if the market is not moving at all.

Step 5: Defining Exit Points

Stop loss and profit-taking exit rules followed by four ways:

- A **Fixed Rupees** amount (e.g. Rs.5,000)
- A **Percentage** of the current price (e.g. 1% of the entry price)
- A percentage of the **Volatility** (e.g. 50% of the average daily movement)
- Based on Technical Analysis (e.g. **PSAR, SMA, Prior Peak and Trough, Fibbo Levels, Pivots**, etc.)

Strategy Development Steps

Step 5: Defining Exit Points

Stop Losses

- A stop loss is used to limit the potential loss if the trade goes against trade. It's the level at which we'll close a trade on the basis that it has gone too far in the 'wrong' direction.

Always use stop losses!

- If we don't apply stop losses in our trading, we won't be trading for long – we'll end up wiping out our trading balance in no time. It can be too easy for a Rs. 300 loss to become a Rs. 5,000 loss.
- A good trader will know when to take a small loss and go on to the next trade.

MONEY-RISK MANAGEMENT

1. **Speculation**

   Averaging

   a. Pyramiding Method

   b. Martingale Method

2. **Hedging**

3. **Arbitrage**

Strategy Development Steps

Step 6: Evaluating Strategy

1. Back-Testing

- Back-testing is a method of testing which will run our strategy against prior time periods. Basically, we're performing a simulation: we use our strategy with relevant past data to test its effectiveness.
- By using the historical data, we're **saving a ton of time**; if we try to test strategy by applying it to the time periods yet to come, it might take our years.
- The effectiveness of back-testing relies on the theory that what has happened in the **past WILL happen again in the future**.

Step 6: Evaluating Strategy

2. The Monte-Carlo Simulation

- The Monte-Carlo Simulation is a problem-solving technique used to approximate the probability of certain outcomes by running multiple trial runs – called simulations – using random variables. It is a way to account for the randomness in a trading parameter – typically, the sequence of trades.
- **Example**, If 1,000 random sequences of trades are simulated with 5% of the account is risked on each trade, what is the probability that the maximum drawdown will be less than 25%?.

Strategy Development Steps

Step 6: Evaluating Strategy

3. Paper Trading

- Paper trading is a method of “Risk-Free” trading. Basically, set up a dummy account, through which we can test our trading strategy with paper money.
- **Two Methods:**

A. We can pretend to buy and sell stocks, bonds, commodities, etc., and keep track of our profits and losses on paper.

B. We can open an account online, usually through broker.

Step 7: Improving Strategy

- There is a difference between “Improving” and “Curve-fitting” a system.
- We can improve our system by testing different exit methods. If we’re using a fixed stop, then can try a trailing stop instead.
- Add a time-stop and evaluate the results again.
- Don’t look only at the net profit; look also at the profit factor, the average profit per trade, and the maximum drawdown.

Step 7: Improving Strategy

- Many times, we'll see that the net profit slightly decreases when we add different stops, but the other figures might improve dramatically.
- Don't fall into the trap of over-optimizing: one can eliminate almost all losers by adding enough rules, but resulting strategy will be almost worthless.

10 Principles-Making Sure That Trading Plan Works

Develop Own Day Trading Strategy

Principle #1: Use Few Rules – Make It Easy to Understand

- The best trading systems have **less than ten rules**. The more rules we have, the more likely that we've "curve-fitted" our trading strategy to past data, and such an over-optimized system is very unlikely to produce profits in real markets.
- It's important that our rules are **easy to understand and execute**. The markets can behave very wildly and move very fast, and we won't have time to calculate complicated formulas in order to make a trading decision.

10 Principles-Making Sure That Trading Plan Works

Principle #2: Trade Electronic and Liquid Markets

- Always trade electronic markets, because commissions are lower and order receive instant fills.

Principle #3: Have Realistic Expectations

- Losses are part of our business. A trading system that doesn't have losses is "too good to be true."
- A robust trading system have
  - A winning percentage of 60-80%
  - A profit factor of 1.3-2.5
  - A maximum drawdown of 10-20% of the yearly profit

Principle 4: Maintain a Healthy Balance Between Risk and Reward

- We can make a lot of money if we're risking a lot, but if we do, the risk of ruin is also high. We need to find a healthy balance between risk and reward.
- Make sure our trading strategy is using small stop losses and that our profit targets are bigger than our stop losses.
- Stay away from strategies that have a small profit target of only Rs.1000 and a stop loss of Rs. 10,000.
- The perfect balance between risk and reward is 1:1.5 or more – i.e. for every Rupee risk one should be able to make at least Rs. 1.50.

Principle #5: Find a System That Produces at Least Five Trades per Week

- The higher trading frequency, the smaller chances of having a losing month.
- If we have a trading strategy that has a winning percentage of 70%, but only produces one trade per month, then one loser is enough to have a losing month.
- If our trading strategy produces five trades per week, then we have on average 20 trades per month. If we have a winning percentage of 70%, then our chances of a winning month are extremely high.

Principle #6: Start Small – Grow Big

- A good trading system allows to start with one or two contracts, increasing position as our trading account grows.
- This is in contrast to many "**Martingale**" trading systems, which require increasing position sizes when we are in a losing streak.
- In this strategy: double our contracts every time we lose, and one winner will win back all the money we previously lost.
- In **Pyramiding** Trading System increase position size in only trade which is profitable. Continuously Adding position as long as the Trend Accelerates but at Decreasing Rate.

Principle #7: Automate Your Exits

- **Emotions and human errors** are the most common mistakes that traders make. We have to avoid these mistakes by any means necessary, especially when the market starts to move fast.
- We might experience panic and indecision, but if we give in to those emotions, we'll suffer a much greater loss than we had originally planned for.
- Our exit points should be easy to determine. The best solution for our exit points is the use of "**Bracket Orders**", which allows to attach a profit target and a stop loss to entry.

10 Principles-Making Sure That Trading Plan Works

Develop Own Day Trading Strategy

Principle #8: Have a High Percentage of Winning Trades

- Your trading strategy should produce more winners than 50%. There's no doubt that trading strategies with smaller winning percentages can be profitable, too, but the psychological pressure is enormous.
- Taking 7 losers out of 10 trades, and not doubting that system, takes a great deal of discipline, and many traders can't stand the pressure. After the sixth loser, they'll start "improving" the strategy, or stop trading it completely.

Principle #9: Test Strategy on at Least 200 Trades

- The more trades we use in our back-testing (without curve-fitting), the higher the probability that our trading strategy will succeed in the future. Look at the following table:

Number of Trades	50	100	200	300	500
<>Margin of Error	14%	10%	7%	6%	4%

- The more trades we have in our back-testing, the smaller the margin of error, and the higher the probability of producing profits in the future.
- We need at least 40 trades for a valid performance report.

Principle #10: Choose a Valid Back-Testing Period

- Do not make the mistake of back-testing trading strategy on the pit contract.
- When futures contracts start trading electronically, they attract a different kind of trader than their pit-traded counterparts; therefore, the characteristics of the two markets can be very, very different.
- Faster fills and lower commissions allow a different kind of trading strategy, and the markets will behave differently than during the times when only pit traders traded them.

Trading is more than having Strategy

Develop Own Day Trading Strategy

There's More To Trading Than Just Having a Strategy

- We understand that a good trading strategy is one of the **single most important factors** when it comes to trading.
- With a proven, reliable strategy, we'll **have a map** for our trading future and a guideline for our success. We'll have a plan.
- Most traders just open a trading account and **start trading, without a clue** as to what they're getting themselves into.
- Only a few of them have a trading strategy, and because of that, many of them fail.

Develop Own Day Trading Strategy

Trading is more than having Strategy

- According to a report from the North American Securities Administrators Association (NASAA):
- "Only 11.5% [of traders] might profitably trade [the markets]. At least 70% of traders lose money in the markets…70% of public traders will not only lose, but will almost certainly lose everything they invest."
- At least 70% will lose everything they invest. And only 11.5% of traders will actually succeed. That's just slightly over 1 in 10. Not great odds.

Trading is more than having Strategy

Develop Own Day Trading Strategy

The Ralph Vince Experiment

- Mr. Vince took 40 Ph.D.s and set them up to trade with a computer game.
- Now, these 40 people all had doctorates, but Mr. Vince made sure that none of their doctorates involved any sort of background in statistics or trading.
- In the game, each of them were given Rs. 1,00,000 and 100 trades, with a 60% winning percentage.
- When they won, they won the amount of money they risked. When they lost, they lost the amount of money they risked.

Trading is more than having Strategy

Develop Own Day Trading Strategy

The Ralph Vince Experiment

- So, after all 40 had completed their 100 trades, Only 2 doctorates out of 40 were able to make money. The other 38 failed to succeed.
- 95% of the candidates lost out. And why?
- Because they fell into the age-old traps:
  - Poor Money Management,
  - Lack of Discipline,
  - Experience.
  - Gambler's Fallacy,
  - Guidance, and

The Seven Mistakes of Traders and How to Avoid Them

- If we know the pitfalls of trading, then it becomes easier to avoid them.
- There are two types of mistakes : A. Small B. Big Mistakes

A. Small Mistakes:

- Buying a security when intending to sell it, simply because pushing the wrong button.
- May be buying the wrong stock, just because there's a typo when we enter the symbol.
- Another possibility is placing the wrong order because entering a buy order at Rs. 213.5 instead of Rs. 21.35.

The Seven Mistakes of Traders and How to Avoid Them

Develop Own Day Trading Strategy

B. Big Mistakes: MUST be avoided if want success as a trader.

- **For Example**, one of the biggest trading mistakes that we could ever make is to try to learn and understand everything about trading…and then **never actually START to trade**.
- Many aspiring traders who have read countless books, have developed dozens of trading strategies, and who have analyzed a number of markets; but they've failed to pull the trigger when it comes to real trading.
- A part of our education is our knowledge and experience. If we want to make money with trading, then have to take the plunge and get started.

Develop Own Day Trading Strategy

What Exactly Is "Risk?"

Risk means "Not Having Control."

For Example, If we're driving a car on the highway, then we're at risk. All motorists are required to have a formal education and successfully **test** their driving skills before they are allowed to drive a car. Cars are equipped with certain security features, such as seat belts, airbags, anti-brake systems, and – let's not forget – a steering wheel.

We should have a formal education and prove our skills before we start to trade. We should take the time to learn about the markets and develop a strategy before "hitting the open road."

Develop Own Day Trading Strategy

We can also apply certain "Security Features." Two of the most important are having **a Trading strategy** and **using Stop Losses**.

Don't trade to get rich quick.

- That's the most important principle when it comes to controlling risk. If day trading was easy, everyone in the world would be in it.
- Being aware of the challenges is the first step in avoiding them.
- Think about the car driving example again: if we know that driving on icy roads is dangerous, we can try to avoid traveling in that particular weather condition. But, if we don't know about ice and the hazard it poses, we might just get into our car and drive like normal, then we realize the danger when we feel our vehicle slipping on road.

Mistake #1: Struggling To Identify the Direction of the Market

- Traders use very **complicated formulas, indicators, and systems** to identify a trend. They'll plot so many indicators on the screen that they can't even see the prices anymore.
- They think that **the more complicated a system is, the better it should "Predict" the trends**.
- As a result, they completely **lose sight of the basic principle**: buy when the market is going up and sell when the market is going down.

Mistake #2: Not Taking Profits

- By their very nature, traders are greedy. After all, everyone want to make money. A lot of money. And making it fast. "**Get rich quick**," right? they'll never have to work again for their entire life. They want to do it in one trade, and that's when they lose.
- **Trading success comes from *consistency***, not from a trading "Grand Slam."
- Therefore, we MUST know when to exit with a profit. Resist the temptation to stay in "just a little longer, for just a little more."

Mistake #3: Not Limiting Losses

- The only way to make a fortune with trading is to actually **stay in the game**, and it's hard to stay when already have lost all the dough.
- **Losses are a part of business**. The key to trading success is to limit losses. Too many traders are giving a trade way too much "room," to losses, which can shrink an account down by 20%, 30%, and sometimes even 40%. Set small losses.
- Average Loss should be smaller than Average Win, because then we'll be making profits even if our winning percentage is only 50%.
- **Always know when to exit a trade**.

Mistake #4: Trading the Wrong Market

- Too many traders are fixed on only one market; they trade ONLY in Nifty, or Stocks, or certain Commodity or forex, etc.
- Here's another key to trading success: **TRADE A MARKET THAT IS MOVING**, either up or down.
- One should Buy when the market goes Up and Sell when the market goes Down.
- So stay away from a market that is choppy or just moving sideways, and start trading a market with nice trends.

Develop Own Day Trading Strategy

Mistake #5: Lack of a Trading Strategy

- We MUST have a solid trading strategy. Having a trading strategy is probably the single most important thing we can do in order to succeed with trading. Having a trading strategy means having a pre-defined set of rules that we have developed for our day trading.
- It means knowing what we're doing instead of just gambling.
- Too many people start off day trading without a strategy, with a day trading strategy, we're way ahead of the crowd, and we can increase our chances of making money with trading.

Mistake #6: Not Controlling Emotions

Main Emotions of Traders

- **Greed** – "I'm sure the market will continue rising, and I'll make Lakhs!"
- **Fear** – "Please…. I don't want to experience another loss."
- **Panic** – "Oh no, the market is moving fast. Why? What should I do? The sky is falling…!"
- **Indecision** – "Should I enter this trade? Or should I wait? Ok, now I'm in a trade: should I take profits? Or not yet? Hmm, the trade goes against me: should I get out now, or should I give it a little bit more room?"

Mistake #6: Not Controlling Emotions

Main Emotions of Traders

- **Over Excitement** – "Hey, I made money!"
- In order to become a successful trader, we have to **have control over our emotions**. The best strategies and tools are useless if we lose(panic) our head while you're in a trade.
- We need to remain calm and execute our strategy.
- **Remain *calm, cool, and relaxed***. Control emotions – don't let them control us.

Mistake #7: Overtrading

- Many traders think that **"Quantity" is better than "Quality**." They believe that if they just throw enough punches, one will eventually hit. They trade like maniacs and make their broker rich.
- 3 Reasons for Overtrading:

a) Greed

- We followed our plan and made the profits that we were looking for. But the market keeps going up. We think, "I should have stayed in this trade," so we jump right back in. And then we realize that WE were the one who just bought the high of the day.

Mistake #7: Overtrading

3 Reasons for Overtrading:

b) Revenge

- We lost money. The market has been mean to us. “Market” just took out our stop and now keeps moving in our direction. So we want to get back at it.
- We keep trading, thinking, “The next trade will make back all the money we lost so far, and that will hurt them.” Believe it: the market is ALWAYS stronger, and it will be WE who gets the bloody nose.

Mistake #7: Overtrading

3 Reasons for Overtrading:

c) Boredom

- There are some days when the ducks simply don't line up.
- We're watching the markets and it's like watching paint dry: **Nothing Moves**. We wait…and wait…and wait…and suddenly just get that **"Itch" to trade**.
- **We think, "If we don't trade, we won't make any money!"** and we jump into a trade immediately. Of course, the trade isn't according to our plan, and we end up with a loss.

The Trader's Psychology

The biggest enemy of the Trader is not another trader, or market makers, or our broker **– *it's Trader Himself.***

And they are their biggest enemy because of *their emotions*.

- Many traders mistakenly believe that trading will result in a consistently rising account balance, like **having an ATM** in their front yard.

- It's essential to maintain a long-term perspective.

Successful Trader…

1. Do not blame.
2. Have a system.
3. Have patience.
4. Do not overtrade.
5. Realize that nothing is 100% foolproof.
6. Do not stay in a losing trade.
7. Do not rush into trades.
8. Stick to a successful strategy.

Successful Trader…

9. Have the ability to adapt.
10. Know what type of trader they are.
11. Bank on consistent profits.
12. Take action.
13. Use successful systems.
14. Recognize a "Good" trade.
15. Take time off.
16. Do not fear losses.

Three "Secrets" to Day Trading Success

Secret 1: Trade the Right Market

The right market is a trending market. As we know, money is made in trends – either up or down

Secret 2: Trade in the Right Direction

Buy when the market is going up and sell when the market is going down.

Secret 3: Always Know When To Exit A Trade

It is essential that to know when it's the right time to exit with a profit AND when it's the right time to exit with a loss.

Three "Secrets" to Day Trading Success

The Trader's Attitude

The "Law of Attraction" says that

"You get what you think about."

Here's how to avoid negative emotions and to have a positive attitude.

Read every Morning:

1. I am a disciplined trader who follows his trading plan.
2. I am cool and relaxed when I am trading.
3. I am in control of my emotions.
4. **I am a profitable trader.**

I promise, you WILL notice a DIFFERENCE…

THANK YOU!

ALL THE BEST !