TYPES OF TRADING

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I. Day Trading

What is Day Trading?

Buying and selling of shares on daily basis is called day trading this is also called as Intra day trading. Whatever you buy today you have to sell it today, or whatever you sell today you have to buy it today and very importantly during market hours that is 9.55 am to 3.30 pm (Indian Time).

· **Day Trading** involves taking a position in the markets with a view of squaring that position before the end of that day.

· A day trader typically trades several times a day looking for fractions of a point to a few points per trade, but who close out all their positions by day's end.

· The goal of a day trader is to capitalize on price movement within one trading day.

· Unlike investors, a day trader may hold positions for only a few seconds or minutes, and never overnight.

What day trading really means.

The term "day trading" is a widely misused and misunderstood term. Real day trading means not holding on to your stock positions beyond the current trading day; in other words, not holding any position overnight. This is really the safest way to do day trading because you are not exposed to the potential losses that can occur when the stock market is closed due to news that can affect the prices of your stocks.

Unfortunately, many people who claim to be "day trading," hold stocks overnight because of fear or greed, thus setting themselves up for the catastrophic elimination of their capital. When day trading currencies, the term "day trading" changes slightly. Since currencies can be traded 24-hours-a-day, there is no such thing as "overnight" trading. Thus, you can have open positions for longer than a day with active stop losses that can be activated at any time.

Day trading can be further subdivided into a number of styles, including:

o **Scalpers:** This style of day trading involves the rapid and repeated buying and selling of a large volume of stocks within seconds or minutes. The objective is to earn a small per share profit on each transaction while minimizing the risk.

o **Momentum Traders:** This style of day trading involves identifying and trading stocks that are in a moving pattern during the day, in an attempt to buy such stocks at bottoms and sell at tops.

Advantages of Day Trading

o **Zero Overnight Risk:** Since positions are closed prior to the end of the trading day, news and events that affect the next trading day's opening prices do not effect your portfolio.

o **Increased Leverage:** Day Traders have a greater leverage on their trading capital because of low margin requirements as their trades that are closed in the same market day. This increased leverage can increase your profits if used wisely.

o **Profit in any market direction:** Day trading often will utilize short-selling to take advantage of declining stock prices. The ability to lock in profits even as markets fall throughout the trading day is extremely useful during bear market conditions.

Day traders buy and sell stocks throughout the day in the hope that the price of the stocks will fluctuate in value during the day, allowing them to earn quick profits.

A **day trader** will hold a stock anywhere from a few seconds to a few hours, but will always sell all of those stocks before the close of each day.

The day trader will therefore not own any positions at the close of any day, and there is no overnight risk.

The objective of **day trading** is to quickly get in and out of any particular stock for a profit anywhere from a few cents to several points per share on an intraday basis.

Suitable Stocks for Day Trading

Basic Criteria

What basic characteristics should a stock have in order to make it a suitable candidate for potential day trading? In my view, the most important attributes are:

- Liquidity
- Volume
- Volatility
- Price Transparency

Each of the above attributes will be discussed here.

1. Liquidity

Liquidity, broadly defined, is the existence of a sufficiently large number of buyers and sellers in a stock to permit one to quickly and easily acquire or exit a position in the stock. Good liquidity is important to the day trader who requires fast executions at relatively predictable prices. High liquidity also has the additional advantage of (generally) reducing the bid-ask spread for a particular stock therefore reducing execution costs for the day trader.

Liquidity is based on a number of factors, the most important of which are:

- Volume of transactions on the market (the higher the better)
- Number of shares outstanding (the more the better)
- Breadth of ownership (the higher the number of shareholders the better)
- Number of market makers (the more the better)

Most of the stocks of the larger companies on NSE and the BSE (particularly 'A' and 'B1' group shares) will have a sufficient degree of liquidity to make them potential day trading candidates. This is particularity true of stocks included in the major indexes such as Sensex or Nifty and Nifty Junior. On the other hand, relatively few small-cap companies would have sufficient liquidity to be attractive to most day traders.

2. Volume

Volume is a component of liquidity and is easily measurable. A good day trading stock should trade at least 200,000 shares a day and preferably much more. Stocks with high volumes permit the day trader to acquire or sell a large quantity of stock without unduly affecting the price of the stock.

3. Volatility

Volatility refers to the actual or expected price movement of a stock (either up or down) over

a particular period of time. In the case of day trading, the period of time to look at is a single day. Stocks which tend to exhibit little movement in price during a typical trading day are not good candidates for day trading. A good rule of thumb is to select for trading only those stocks which tend to fluctuate in price by at least rs. 7-10 in a typical trading day.

4. Price Transparency

Price transparency refers to the ability to obtain information as to the order flow for a particular stock. This is also referred to as market depth. The NSE and BSE quote system provides information on all the bids and asks at various price levels for a particular stock. In addition, the quantities of stock being offered and bid for at the various price levels are made available. For day traders who have arranged for access to NSE terminals, this greatly helps the trader in assessing the relative strength or weakness of a stock and its likely direction in price.

Personality Traits of Successful Day Traders

Personality

What are the key personality traits that successful day traders tend to have in common? Here are some of the most important ones:

Confidence

This is perhaps the most important personality trait of good day traders. You won't succeed at day trading unless you have a high measure of confidence in yourself. Lack of self-confidence will result in doubt, indecision and second-guessing which, in turn, will lead to missed trading opportunities and frequent losses. You must believe in yourself when day trading. If not, you will be better off pursuing some other endeavor.

Discipline

In order to day trade successfully, you must develop a trading plan and consistently stick to it. You must avoid a "shooting from the hip" or a "seat of the pants approach" to day trading. Get out of the market when you have reached your objective and do not let emotions like fear and greed influence your trading decisions.

Decisiveness

Good day traders do not hesitate to "pull the trigger" when entering and exiting trades. Traders who are in the habit of being tentative or indecisive will never become successful.

Passion

Most successful day traders have a true love or passion about their trading activities. If you do not enjoy reading charts, dealing with numbers, reading market news, interpreting quote screens, learning new trading strategies and working independently in a fast-paced environment, then day trading is probably not your cup of tea.

Ability to Accept Failure

Good day traders know that many of their trades will fail to meet the original objective. They do not, however seek to blame someone else for their loss, and they don't dwell on it. They attempt to learn from their mistakes and move on to the next trade.

Ability to Accept Risk

Another personality trait of good traders is that they are comfortable with risk and are prepared to lose money from time to time. If you are afraid that you will, on occasion, lose money, then day trading is not for you.

Patience

Good traders do not rush into trades. They take the time to select good trading opportunities and do not place orders simply for the sake of holding a position in the markets at all times. On some market days, where few good trading opportunities exist, they are content to simply stand aside and wait.

Concentration

In day trading, a great deal of real-time information has to be absorbed, analyzed and acted upon in intense bursts throughout the trading day. This requires a great deal of concentration and stamina on the part of the trader, and the ability to avoid distractions. Day trading can be very hard work and a lack of concentration can doom a trader to failure.

Day Trading Training
Strategies for day trading

Main strategy for day Trading

The primary strategy of day trading is to earn consistent money on daily basis.
Second strategy for day Trading is to observe carefully the stock price movements

One more important factor to watch is stock price fluctuations. Stock price fluctuations means by how many dollars or cents the stock is moving (either up or down). This gives you an idea on what price to buy and at what price to sell (or first sell and then buy).
This strategy is very useful for day trading but in fact you get more superior idea (or plan) for TOMORROW'S DAY TRADING for this particular stock.
Keep a close watch on Supply and Demand - Supply and demand means how many buyers are willing to buy (this indicates the demand) and how many sellers are aggressive to sell (this indicates the supply). Always remember the stock price movement depends on supply and demand. Simple thing to remember (not only in stock market or day trading but also in general life) that more demand and less supply means price is going to move up and if more supply and less demand then price is going to come down.
Overcall if you study this strategy carefully then you will come to know whether the people are interested to buy or sell the stock and hence the price moves accordingly that is if see more buyers then the price is going to move up and if you see more sellers then price is going to fall down.

Advantages of Day Trading

¨ Margin trading -
In Day trading you get margin on your balance amount means you get more leverages (amount) on your available balance amount to do day trading this concept is called margin trading. Margin trading is only possible in day trading and not in delivery trading. How much extra amount (margin) you are going to get that totally depends on your broker, or your online trading system brokers. Some broker provides 3, 4, 5, and 6 times extra margin.
If you do margin trading then you have to square off your open trades on the same day (means if you bought shares then you have to sell and if you sold shares then you have to buy) before market time (that is 3:30 PM) finishes.
¨ Second important advantage is that you have to pay is less brokerage (commissions) on day trading (Intraday) as compared to delivery trading. This brokerage again depends from broker to broker (or on your online trading system).
¨ In day trading you can sell and then buy this is called short sell which you cant do in delivery trading. You can sell shares when prices are falling and then buy when price falls further.

Disadvantage of Day Trading

¨ As you are benefited to get more extra amount to trade (that is margin trading) and get more extra profit it is also equally true that you are also taking more risk of loss.
¨ At any cost you have to square off the open transaction before 3:30 PM (especially if you are doing margin trading) at that time the price may not be in your favor.

Information on Day trading tools

A successful day trader or share market trading requires couple of disciplines and following trading requirements -
¨ PC with internet - If you need to do trading yourself then you need to have a PC or else you can do trading in internet café also. A PC with good internet connection speed. The internet connection should not be slow or should not face any other problem especially in Day Trading.
¨ Online Trading Account (Demat Account) - You need to open online share trading account with any of the available banks or online brokers.

Day trading stocks

In day trading, traders mostly wish to do buying and selling on small profits or else they look for overbought or oversold shares.
Taking into consideration these important points following basic things you should look in for shares while choosing them for day trading.
¨ Price Volatility
¨ Volume (quantity)
What exactly these terms mean and how to use them while Day Trading.

Price Volatility

The Price volatility means the movement (up and down) of share price should be more (or high) through out the day. In other words the fluctuation in share prices should be on high rate so that it will be easy for you to buy and sell on different prices. Suppose if share is moving up and down in very narrow range then on what price you will buy and sell? So it is always better if you choose shares which have high volatility in price movement.

Volume (quantity)

Volume means trading quantities. The shares which you choose for day trading should have high volumes (or high traded quantity).
Why this is required?
The high volume indicates that there is more liquidity. Liquidity means lots of transactions had took place on this share and more people are interested to trade in this share. This will ease your trading job because you will get more exposure to the price to buy and sell at anytime. Due to high volumes there will be also high price fluctuations.

Points to remember for day trading

Following are very important points to be always remember by day traders.
Entry & exit points, stop loss limits, profit targets, your desired risk/reward profile, amount of capital to be committed to trades, how long you need to hold the share if incase it is against your favor.

Day trading rules for Indian share market

It's important to do practice or paper trading before you starts actual trading. Following are the few reasons,
¨ Very importantly you will come to know how to place buy/sell orders, and will become familiar and perfect about using your trading system.
¨ You will gain confidence in yourself.
¨ The fear of trading will vanish. It is very important to keep fear away while doing day trading.
¨ You will become active to enter and exit the trade. It's vital important that you must be pretty fast to enter and exit the trade (i.e. open positions).

Guide for daily profit in day trading

Don't jump in trend early - Wait and get paper confirmation of trend change, and then plan and do your trades (buy/sell). Don't jump in or do early trades before any trade change confirmation this may damage your capital (bank balance).

Don't wait in trade for long time - Suppose that you had done one trade (either buy or sell) but the scrip is not moving either up or down, it is just stable or moving with very low price difference, then you should get out of that trade and look for other scrip's. You may encounter these type of situations when indices (NSE or BSE) and not moving (or moving with narrow range). At such time either you wait or come out of trade, don't loose patience and fall under loss.

Don't change your trend on volume volatility - Some time you enter in trade by seeing the buy and sell quantities. For example, suppose you brought shares by seeing more buy quantity then sell quantity, expecting more buy quantity may push the share/stock up but after few minutes you see exactly reverse that you see more sell quantity and less buy quantity or both buy and sell high quantity or the difference of buying and selling quantity is decreased as compared to what you had seen before. So this point is very important, don't panic here and sell off your stock, wait and realize the situation properly and then take action. This situation comes many times but if you are sure that your share is going to move up then stick to it.

Beware of companies' acquisition or any announcement by Government - Suppose in the morning, before market begins, you should read or viewed the news of any Indian Company

has acquired any foreign company (or part of foreign company) if you see this is actually best news/things that Indian company. But if acquisition amount is far more than expectation then this good news will turn into worst news. The shares of that company will start falling. So you should not get in trade and buy shares you have to wait and watch how market or other people are responding to these shares and once you understand then you can trade. So always watch where the market heading towards and then react.

Announcement of Government - You should also be very careful to decide your tarde based on any government announcement.
For example, if government has declared any hike in interest rate then its good news for bank stocks and hence the shares will rise but if government has declared 2nd rate hike in very less span of time as company to first one (stay within duration of one, two month or three month) then this news will be worse for bank stocks, the share may keeping fall during the trading period. So realize and analyze the news and finally watch market behavior and this fall or do trade you will get success.

Resources to start your day trading in Indian share market

¨ Read financial newspaper like Business Standard, Economics Times, etc. If possible note done the high lights/breaking news with respective company names and keep close watch on them for that day.
¨ If possible watch share (stock) market related TV channels like Zee Business, CNBC, etc. In these TV channels you get over all idea/movements of all share prices and markets (BSE, NSE). And also it becomes easy to catch and keep close watch on related companies if any breaking news comes out during that day.

¨ Especially some share market related websites always displays current news, market affairs, share market trends, breaking news and various announcement done by company or government which may effect the share market and related companies. So try to access and have all ok on such types of websites before starting trading and also through out the day, if possible.

¨ So in short before starting you stock market trading you should be well aware of all the current news of financial market and if possible note down the breaking news or effective news and its related company and keep watch on that share and trade accordingly on that day.

Day traders secrets

Never invest all your money in same sector this method is called as diversification of shares. This will protect your money from downtrends of any particular sector as you can make money from other sector.
There are various sectors like IT, Pharmacy, Banking, Steel, Petrol and Oil, construction and infrastructure, auto etc.

Day trading tips

Prepare your Trading Plan
Control your Emotions
Accept and Limit Losses
Don't Over-Trading
Strictly maintain stop loss
Don't try to get big profits in single trade
Check out volumes before buying

Day trading techniques

Buy near open price

If possible try to buy shares below open price, or at open price. Don't buy shares if price is gone very high then open price, wait for the price to come down near open price and then buy that stock.

Check buying volumes

Before buying check out the buying and selling quantity (volumes). If buying volume started increasing then the stock may go up.

Check derivative status

If possible try to check out the derivative of the stock which you want to buy. If derivative of that particular stock is going up with increasing buying volumes then you can immediately grab (buy) that share/stock.
Most of the time it is seen that if the derivative goes up, then its stock or share also goes up.

Wait for the target price to buy

For example, if buy is given at 150.5 then don't buy below this price, only buy at 150.5 price or slightly higher then price. Because the given buy price may be the resistance price, if it breaks then share price goes up or else may not go up above 150.5. So plan to buy at given targeted price, don't buy below target price.

Strictly maintain Stop Loss

Strictly maintain the given stop losses. This will help you to prevent from huge loss. Suppose, for moment the share/stock

what you bought falls drastically down, then you may end up with huge loss. So always maintain given stop loss.
"Stop Loss will reduce your loss".

If you are getting some profit and if you notice that is not further moving up (it's called consolidation) then you have to sell your share/stock and come out of that trade.
In this manner, you can earn small profit instead of loss then you can do another trade and again earn small profit. Likewise if you keep earning couple of small profits in a single day then single day.
"Get satisfied in small profit and do multiple trades"

DOS AND DON'TS DURING INTRA-DAY

· If index is in positive from yesterday and the share you are holding is in minus then it should be cut and if intraday trend of index is in buy then one should buy a stock in which is in plus.

· If index is in minus then one should look to short stocks which are minus and not stocks which are in plus.

· It is not necessary that a stock which is weak today during intraday trading might be weak tomorrow also, simultaneously if a stock is strong today might not be strong tomorrow

· If US Markets have gone up overnight, the markets here in all probability will open strong, so one should be quite careful when buying stocks as the general psychology of public is to buy when good news is there.

· Being a contrarians is very important while trading intraday.

· Stop loss is a must while trading intraday.

· Always trade in very liquid stocks i.e. which have very high volume because as entry and exit can be very fast in such stocks.

· Do paper trading before you actually start trading so that when you start making paper profits, then shift to actual trading.

· Keep your volume constant **e.g.:** if you trade in five lots of nifty future then trade in five lots only. This position can be increased only when you are satisfied with your trading for a month. It should not be that one day you buy five lots and next day you trade in ten lots and third day you get a loss and stop trading for two days.

· Fear and Greed are at maximum levels while trading intraday so always have less position when you are new to intraday trading as otherwise you will be mostly under tension.

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II. DELIVERY BASED TRADING

Investment in delivery based trading

Delivery based trading means buying shares and holding them for certain period of time is called delivery based trading.
The shares you bought will be in your demat account.
Once you take delivery of shares you can hold them as long as you want. To take delivery of shares, you must have sufficient funds in your account. You don't get any margin to buy shares in delivery.
If you have Rs.5000 means you can buy shares worth of Rs.5000 and not more than this.

Tips for shares investment in delivery based trading

Please study following points, carefully, and get best returns in short period of time.
Basically, Delivery based trading can be minimum one week, one month or couple of months.
How long to hold your scrip's/shares will depend on other technical indicators and averages.

How to select best scrip's

There are thousands of shares/stocks, which one is best for delivery trading and which one will give maximum profit
in short period of time. Please have a look following selection criteria points.
Points to remember for fundamental screening,
1. Sector - 50% of stocks rise and fall is directly related to the strengths and weakness of

its industry group.

2. Never lose more than 1-2% of your total amount on any one trade.
3. Promoters holding more than 40% indicate safety for retail investors. (Promoters - who run the company)
4. FII holding minimum 20 and maximum 25 is safe for retailer, not much volatility.
   More FII investment = more volatility.
5. Liquidity - buying and selling of shares minimum 1L/day

Consistent earnings

Generating profit consistently year after year or quarter after quarter

EPS

Earning per share is calculated by taking a company's net earning and dividing by the numbers of outstanding shares of the stock the company has.

Note - Last year's EPS would be actual, while current year and forward year EPS would be estimates.

P/E Ratio

EPS is a great way to compare earnings across companies, but it doesn't tell you anything about how the market values the stock. That's why fundamental analysts use the P/E ratio, to figure out how much the market is willing to pay for a company's earnings.

P/E Ratio = Price of the share/EPS

Higher the PE ratio, more people are convinced to pay high for that share expecting higher growth in coming future.

Dividend yield

It is calculated by taking the amount of dividends paid per share over the course of a year and dividing by the stocks price.

Its percentage return a company pays out to its share holder in the form of dividends. The higher the better.

Price/Book ratio

The higher the ratio the higher price the market is willing to pay for the company above its assets. Its more useful to value investor than growth investor.

Price/Sales ratio

As with earning a book value, you can find out how much the market is valuing a company by comparing the company's price to its annual sales.
Low Price/Sales ratios (below one) are usually thought to be the better investment since their sales are priced cheaply.
P/S ratios are usually used only for unprofitable companies, since such companies don't have a P/E ratio.

Returns on Equity (ROE)

It is used as a general indication of the company's efficiency, in other words, how much profit it is able to generate given the resources provided by its stockholders.
Investors usually look for companies with ROE that are high and growing.

Debt to equity ratio

This should not be more than 1, and less than 1 indicates company has very less debt. This is very important during market down trend as company has to pay lots of interest ratio beside low profitability. So its good sign, if company has less debt and that is debt equity ratio.

Investment tips in Delivery based trading

Remember following points to increase your profit and reduce losses.

Buy shares of different companies

Don't ever try to put all your money in single share. Try to get shares of multiple companies and if possible from different sectors.
You will always get benefited by investing in companies of different sectors, because we never know which sector will have good news and which sector will have bad news.
"Market always reacts for news."

Be Patient

When you buy shares, they may go down. In share market its general practice that shares go up and down.

If they go down than don't panic and sell your shares

Most of the investors/traders wait till their shares come to their buying level and then sell, but generally they forget

that is the actual buying level of shares and from this level onwards the share price will start moving upwards.

Corporate investment for long term trading

¨ Taking delivery of shares during Q1, Q2, Q3 and Q4 results is very common among investors/traders who knew the

historical performance and current market situation of those particular companies or sector, so study historical

yearly profits and sales ratios of top companies and buy shares of those companies.

Some weeks before, their quarterly results and after declaring their huge growth in quarterly results, obviously share

price will shoot up then you may sell your shares and make handsome profit in very few weeks.

¨ If you hold bit longer, then you may also get benefited of dividend. If companies make outstanding profit then they

may declare dividend.

Technical indicators for Delivery based trading

It's very important to make use of technical indicators in Delivery based trading.
As this topic is very vast, we will try to brief about important indicators to use. If you need any extra free support/guidance then drop an
You can use following indicators for entry and exit signal, over bought and over sold levels etc.

¨ MACD
¨ RSI
¨ Moving Averages

Returns on investment in Indian companies

There are very important benefits of Delivery based trading

Hold as long as you want

If you buy shares and if it goes down, then you can hold them and sell them only when your shares go above your

buy price.

Loan

Nowadays some banks and some financial firms provide loans on your shares. So you can utilize your shares in
your bad times.

Dividend (very important)

If companies make good profit, then they may declare dividend per share. If you hold shares of such companies
then you may get dividend per share.

Good returns

Nowadays if you keep your money in banks then you get maximum 9% or 9.5% per year. If you invest in shares of
good growing companies then you can earn minimum 15% returns per year. Some companies give 30 to 40%
returns per year.
Best share market returns are based on delivery based trading for long term.

Bonus share

If company makes extra ordinary profit then company may declare bonus shares. Bonus share like 1:1 means if
you have one share then you may get another free.
So if you have delivery of such shares then you are liable for such bonus shares.

Money making opportunities for long term

It become very important to decide for delivery based trading that how long to hold shares of a company------right?
Please watch on following two important points,
¨ Watch Q1, Q2, Q3, Q4 results of a company and check whether company is declaring/ posting consistent profit or
sales, its very important for a company to declare quarterly results in good profit percentage in order to prove its
consistent growth in the market.
¨ Declaration of future plans, expansions, acquisitions, mergers etc. Any good such plans can boost companies

profit, so you may plan to hold such shares. Such plans are very important.

Financial planning for your share returns

It's another important point to consider, if you hold more than one share then it is always advisable to prepare technical document for all your shares.
You can prepare excel or word sheet on your computer or you can write in your notebook.

Points to involve / write with date

¨ All quarterly results - Including profits and sales ratio and other financial ratios
¨ Declaration of bonus or dividend.
¨ Declaration of acquisition, expansions etc
¨ Weekly volume, close price, PE ratio, any company news etc.

In this manner you will come to knew what is happening about your share and you can decide when to sell or till what period to hold. This system is called portfolio maintaining.
Even you can keep a close watch on share which you are planning to buy and if you get proper signal or feel comfortable with its quarterly results or news/future plans, then you can jump and buy that share.

III. Swing Trading

What is Swing Trading?

Swing Trading takes advantage of brief price swings in strongly trending stocks to ride the momentum in the direction of the trend.

· Swing trading combines the best of two worlds -- the slower pace of investing and the increased potential gains of day trading.
· Swing traders hold stocks for days or weeks playing the general upward or downward trends.
· Swing Trading is not high-speed day trading. Some people call it momentum investing, because you only hold positions that are making major moves.
· By rolling your money over rapidly through short term gains you can quickly build up your equity.

How does Swing Trading work?

· The basic strategy of Swing Trading is to jump into a strongly trending stock after its period of consolidation or correction is complete.

· Strongly trending stocks often make a quick move after completing its correction which one can profit from.

· One then sells the stock after 2 to 7 days for a 5-25% move. This process can be repeated over and over again. One can also play the short side by shorting stocks that fall through support levels.

· In brief a Swing Trader's goal is to make money by capturing the quick moves that stocks make in their life span, and at the same time controlling their risk by proper money management techniques.

What are the advantages of Swing Trading?

· Swing Trading combines the best of two worlds -- the slower pace of investing and the increased potential gains of day trading.

· Swing Trading works well for part-time traders — especially those doing it while at work. While day traders typically have to stay glued to their computers for hours at a time, feverishly watching minute-to-minute changes in quotes, swing trading doesn't require that type of focus and dedication.

· While Day Traders gamble on stocks popping or falling by fractions of points, Swing Traders try to ride "swings" in the market. Swing Traders buy fewer stocks and aim for bigger gains, they pay lower brokerage and, theoretically, have a better chance of earning larger gains.

· With day trading, the only person getting rich is the broker. "Swing traders go for the meat of the move while a day trader just gets scraps." Furthermore, to swing trade, you don't need sophisticated computer hook-ups or lightning quick execution services and you don't have to play extremely volatile stocks.

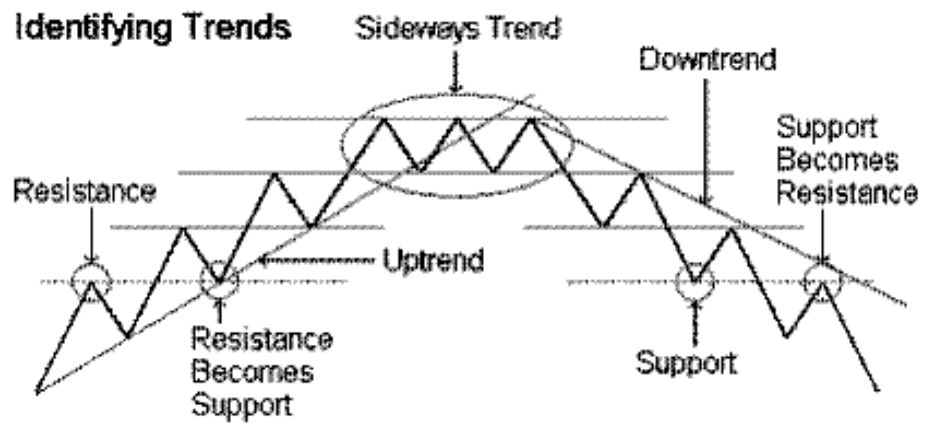
We believe that the Swing Trading method is a better way for the individual investor to attain superior investment results through short-term trading in the stock market. This trading strategy has been carefully designed for the needs of the individual investor who does not have the resources that institutions and professional money managers may have.

How to Swing Trade?

To fully understand what swing trading really is, you first need to understand what up/down trends are.

Up Trend: Simply put an uptrend is a series of higher highs and higher lows. In other words, an uptrend is a series of successive rallies that extend though previous high points, interrupted by declines which terminate above the low point of the preceding sell-off. Often the high of the last "swing" in the trend will serve as support for the next low. These areas are circled.

Down Trend: Simply put a downtrend is a series of lower highs and lower lows. In other words, a downtrend is a series of successive declines that extend though previous low points, interrupted by increases which terminate below the high point of the preceding rally. Often the low of the last "swing" in the stock's trend will serve as resistance for the next high. These are circled.



Long Swing Trades: Once an uptrend has been identified a swing trader looks for buying opportunities in that stock. This can be identified when the stock experiences a minor pullback or correction within that uptrend. The swing trader then activates a trailing buy-stop technique. If prices break out above the trailing stop loss, you will be stopped out and long in the trade. If prices decline, your buy-stop will not be touched.

Short Swing Trades: Once an downtrend has been identified a swing trader looks for selling opportunities in that stock. This can be identified when the stock experiences a minor rally within that downtrend. The swing trader then activates a trailing sell-stop technique. If prices break down and fall below the trailing stop loss, you will be stopped out on the short side. If prices rally, your sell-stop will not be touched.

Swing Traders

The principal difference between day trading and **swing trading** is that swing traders will normally have a slightly longer time horizon than day traders for holding a position in a stock. As is the case with day traders, **swing traders** also attempt to predict the short term fluctuation in a stock's price. However, swing traders are willing to hold stocks for more than one day, if necessary, to give the stock price some time to move or to capture additional **momentum** in the stock's price. Swing traders will generally hold on to their stock positions anywhere from a few hours to several days.

Swing trading has the capability of providing higher returns than day trading. However, unlike

day traders who liquidate their positions at the end of each day, **swing traders** assume overnight risk. There are some significant risks in carrying positions overnight. For example news events and earnings warnings announced after the closing bell can result in large, unexpected and possibly adverse changes to a stock's price.

Advantages: Slower cycle of trades, meaning fewer trades to make, fewer commissions, less chance of error and the ability to catch the more significant multi-day profitable swing trades. Technical analysis is used primarily to identify these opportunities. Average profit target percentage is much higher typically than day trading.

Disadvantages: With those higher profit targets comes higher risk per trade. If you are looking to trade over a longer timeframe, you have to expect your average risk per trade will need to be higher simply to account for the retracements that are common in all stock and futures markets trading. There is also overnight exposure and you would be exposed to any major developments.

Exact Swing Points -Support And Resistance

Where exactly are the support and resistance points?

Where exactly are the swing points on a chart?

This is a particularly important lesson! Just about every system or method of trading at least takes note of where the key support and resistance levels are. I have found a double use for my method of identifying these points - They are also Swing Points!

You may think you know where Support and Resistance is, but do you really?

How do you know where support and resistance really is?

The problem with Support and Resistance (S&R) is that it is not a definite number. It is not an exact point on the chart at which price will, without any hesitation stop.

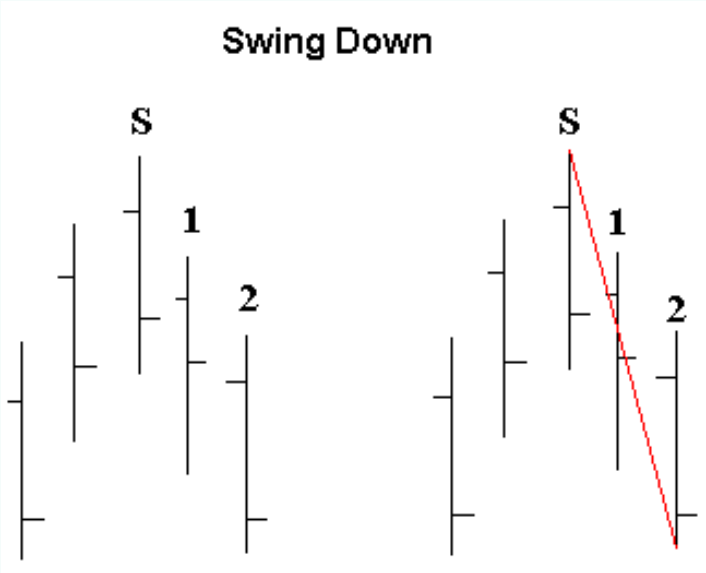
In fact S&R is actually an area - it is not an exact number as we would all like to think.

The dilemma of course, is that in order to do our calculations we need an exact point. You can't enter $50.10/20 area when using fibonacci or working out your stops and limits. You need an exact number even though S&R is not an exact number.

Try telling your broker that you want a stop loss at somewhere between 50 and 55 and watch him burst a blood vessel.

This is what I want to concentrate on in this lesson. This is a technique I have found to be particularly good at not only identifying strong S&R points but also swing points.

In order to find S&R we must first identify market swing points. There are various ways of doing this but I am going to use the one I have used for years.

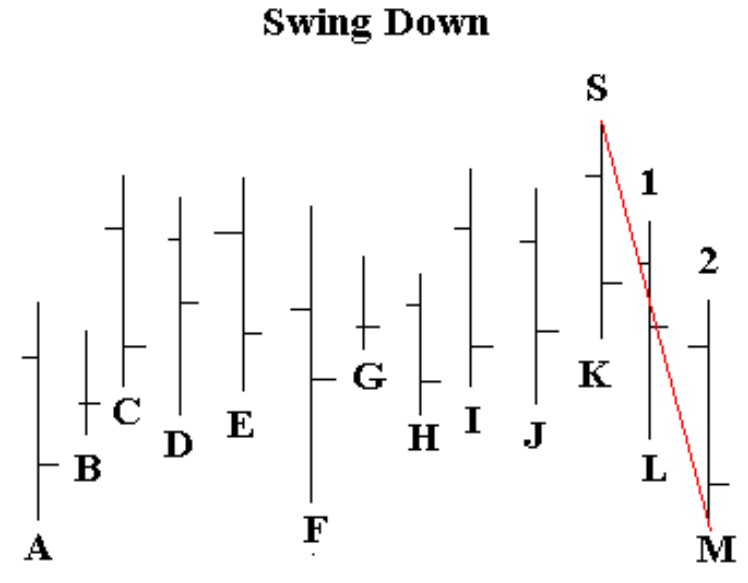


For the purpose of swing points we are not interested in the open or close of the bars only the high and low.

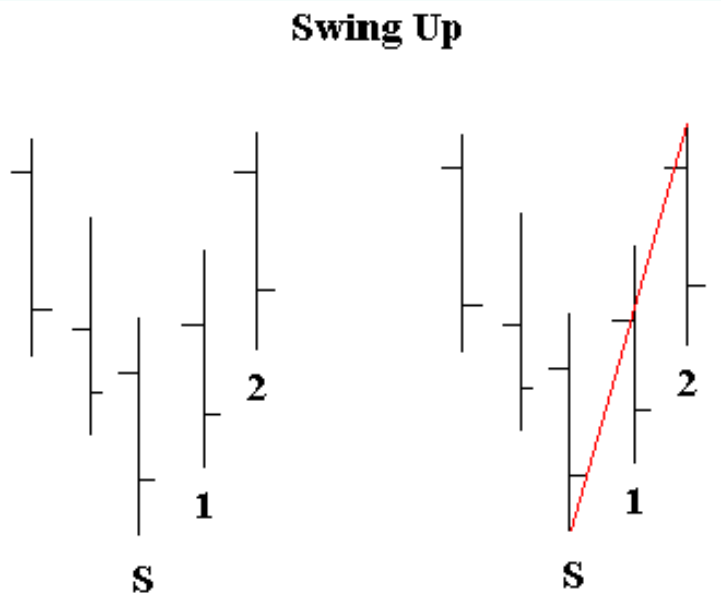
Take any bar and think of that bar as the start bar (S). If there are two consecutive higher highs than the bar you marked (S) then that is a swing up e.g. bar (1) has a higher high than bar (S) and bar (2) has a higher high than bar (1). If there are not two higher highs than bar (S) then you move to the next bar and see if there are two consecutive higher highs.

This can be particularly useful if the market is trading sideways and you are trying to determine the breakout point. There may be many peaks and valleys but for me there is only one real point - that is the most recent swing up or swing down.

Look at the next diagram

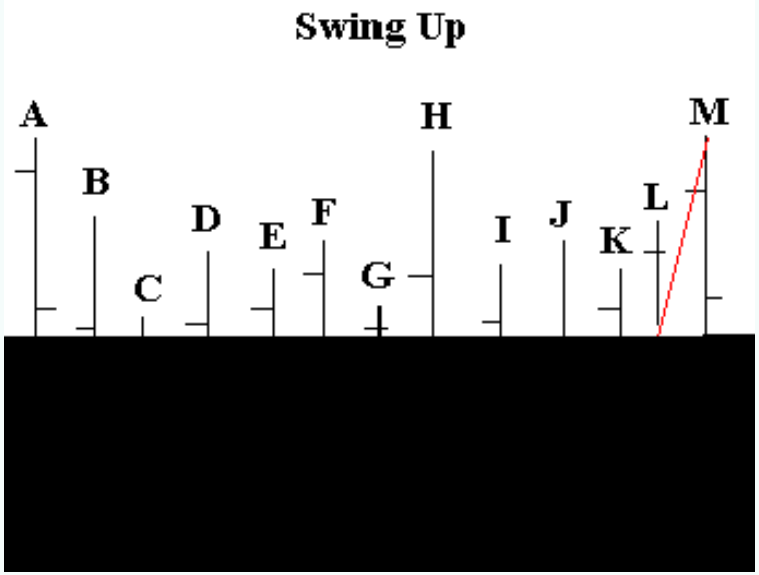


You can see that although there were a few highs and lows that you could have taken as support or resistance, but it wasn't until bar (M) that a definite swing point had been identified and you could mark bar (K) with an (S).



To work out the swing down point - take any bar on a chart and think of that bar as your start point - bar (S). If the next two consecutive bars make lower lows than the previous bar then that is a swing down e.g. bar (1) has a lower low than bar (S) and bar (2) has a lower low then bar (1). If there are not two consecutive lower lows then it is not a swing point and you move to

the next bar.



Just as in the example above you can see exactly the same thing with the swing down. Even though price made a few highs and lows it wasn't until bar (M) that you could mark bar (K) as the (S) point.

Support And Resistance

Only once we have clearly marker swing points can we go on to identify our support and resistance points.

As you can see from the chart I have marked all the swing up points and swing down points. When we are in a down trend then the swing down points act as resistance and when we are in an up trend the swing up points
act as support.
Marking the support and resistance points using this method of first identifying the swing points will give you definite points on a chart from which to calculate your stops, limits and projections.

IV. Trend Trading

What is a Trend?

A trend is nothing but the general direction of the price of an asset or market in general.

A trend can apply to equities, bonds, commodities and any other market which is characterized by

a long-term movement in price or volume.

What is Trend Trading?

· Trend trading is one of the most effective and easy to use methods for making money in the market. Trend trading success depends on identifying and catching the trend after it has started and getting out of the trend as soon as possible after the trend reverses.

· Trend Trading involves taking a position in the markets with a view of holding that position for weeks to months for larger than normal gains. Trend traders or investors generally trade the long term or secular trends and are not concerned with the day to day market volatility.

Advantages of Trend Trading?

· Trend trading is the fastest and most risk free way to make money in the markets. In trend trading you can identify a change of trend in the market as early as possible, take your position, ride the trend and close your position shortly after the trend reverses.

· With Trend Trading it is very possible to catch 60 to 80% of many intermediate term and long term market movements and thus create wealth for yourself and your family.

· Trend Trading will help you take large profits out of the market, without having to watch the market or stocks on a minute-by-minute or even a day-by-day basis.

· Whether you are a short-term day trader or a long-term investor, we believe incorporating Trend Trading into your overall trading plan is a must. There are two types of trades: "Income producing" trades and "Wealth-building" trades. Swing trading and day trading produce income, while Trend Trading Picks is designed to amass wealth.

Trends and Corrections in Indian Stocks & Indices

It is said that "the trend is your friend" in numerous articles and books on the subject of trading. For the most part, this is absolutely correct. However, even the trend can fail to be your friend if you do not realize when it has likely come to an end.

Although most traders realize that catching a strong trend can mean a great deal of profits, many still try to trade against it. Why is that? I believe that it is safe to say that most feel that once they try to enter that trend, it WILL end. They try to trade against the trend because they feel that it has run its course, and they want to get a jump on the new opposing trend (sell the very top, buy the very bottom). And of course, most are unable to determine when it has actually ended, finding themselves just another victim of the forces of the trend at hand.

In an attempt to minimize the hazard of entering a new trend as it may be ending, some have turned to Elliott Wave analysis. EW analysis is based on counting the waves that form within a trend. For instance, the basic teaching of Elliott is that a trend will have at least 5 waves. Three of these waves will be with the trend, and two of them will be counter-trend, or a 'correction' of the trend. Each correction is expected not to exceed 100% of the original thrust or wave leading to the beginning of that correction wave.

For example, if price starts a trend up by making 100 points (wave 1), when it starts to drop again (correction wave 2), it is expected to drop less than 100 points if the up trend is indeed valid. When it does end, the original trend resumes what is called Wave 3, which must exceed the end of Wave 1 (beginning of Wave 2) and move higher before it too corrects into Wave 4, and so on.

With EW, some figure that if they do not count 5 waves, then the trend must not be over yet. However, it has been found that EW can be quite subjective. Getting every EW Analyst to agree on the count is futile.

Examining thousands of price charts over the years, I have noted that price tends to trend at certain angles. A strong bull trend will usually start at some angle of ascent, and either increases its angle as it nears its end (a rush to buy from those just realizing the bullishness of the market), or simply maintains the original angle.

Trend lines have proven to be an indispensable time tested tool when it comes to highlighting a trend and its angle of support. Though it may be said that drawing a trend line is also subjective, I have found that with experience the trader/analyst can become quite consistent in its proper application.

When a new trend begins, it may not be so readily apparent for many. Yet, a new bull trend may appear at first to simply be a bear trend correction, but then exceeds a prior bear trend correction's bottom and top. Alone this would not be enough to suggest the bear trend is over, but when that new bull trend corrects for the first time and fails to take out the very bottom of that trend, but rather starts up again, this higher swing bottom is yet another clue that a bottom is in and the bull has arrived. Further rise in price that then exceeds the last swing top formed (the start of the last correction down) continues to suggest that the bull is in force.

Suppose we number the beginning of each wave for discussion sake. The new bull move starts from the very bottom that we call (1). When price tops, and then corrects (moves down), we call this top (2). When price stops dropping, and if this is a bull trend we expect it to do so before reaching the low of (1), it will start up again. The beginning of this move up we'll call (3).

A simple way to draw a trend line is to place the line below bottoms (1) and (3) out into the future. This gives us our first angle of ascent to watch for. It is advisable that the move from (2)

to (3) be at least 38% of the move from (1) to (2) before you consider that correction low of (3) for your trend line reference. Less than 38% suggests that you may not have seen the (2) to (3) correction just yet.

A good bull trend will usually operate above this trend line. As a matter of fact, that trend line will often serve as a good support reference line, where price that corrects later on may start to resume the trend once again. Always be mindful to note whether price starts to become parabolic (starts moving more vertical at a sharper angle). If it does, you may not see price correct again to your trend line, and a new one may need to be put into place once price corrects again to give you a reference bottom to do so.

The standard definition of a Bull Trend is that price will make higher swing bottoms (the end of each correction). At some point, a correction bottom may drop below a previous correction bottom. This may suggest the bull is weakening, though not necessarily over, though it could be. If price were to drop below two prior swing bottoms, the bull trend is considered over. This is one way to note that a bull trend is coming to an end. The best time to consider trading short the end of a bull trend is not necessarily the very top. Rather, it is when price fails to move price above the prior swing top (the current bull top) and starts correcting down again. This is because the standard definition of a Bear Trend is that price will make lower swing bottoms and lower swing tops. So when you see a bull trend make a lower swing bottom rather than a higher one, be on the lookout for the possibility of a lower swing top following.

The trend line again can be quite useful here. When the bull trend is correcting and you note that it just made a lower swing bottom rather than a higher one (it went lower than the last swing or correction bottom), see if it also did so below the trend line you have established as valid on your chart. If it did not, then be careful to assume the bull is over. However, if it also moved below the trend line, the bull may be over.

Understanding the relationship of trends and corrections can go a long way in helping the trader/analyst trade with the trend rather than trying to guess its end and trading against it. It can help the trader stay in the trade longer while the trend is still intact. In addition, noting when a correction is greater than expected can help the trader make plans to be more aggressive with the stop-loss management, preparing for the end of the trend likely due shortly.

When you start to become intimate with chart patterns and how they appear when trending, this will open new doors to you when it comes to timing those correction (swing) tops and bottoms.

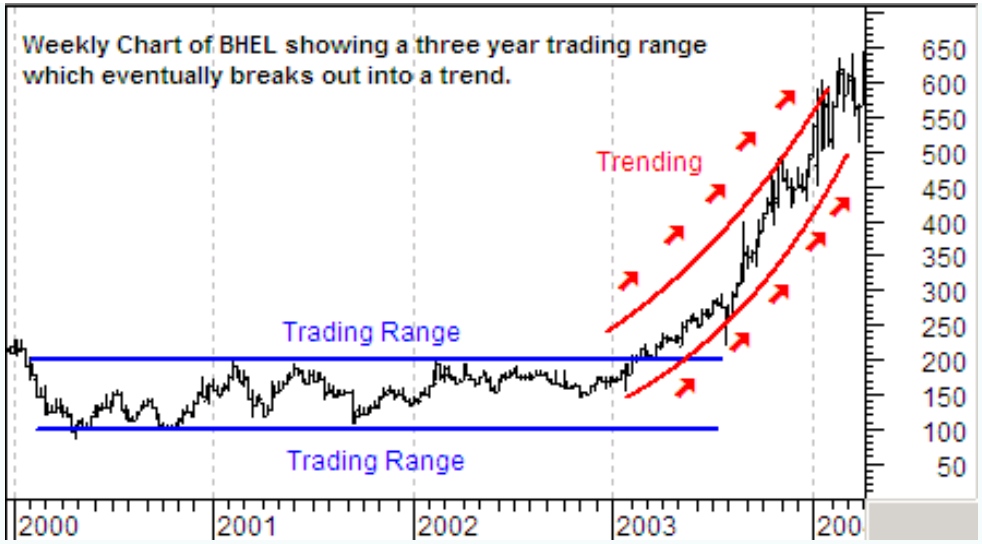
TREND is your friend

TRADERS' BIGGEST PROBLEM

Trading is likely the most exciting way to make a living and/or accumulate a fortune. You are your own boss and your own worst enemy. You alone must deal with the frustration of your own choices. If you lose, there is no one else to blame. You made the losing decision, even if that decision was to let someone else make your decision or to follow someone else's approach. On the other hand, if you win, don't have to say "Thank you" to anyone. You are not obliged to anyone but yourself. There is no politics nor anyone to whom you must cater. You are truly "sliding down the razor blade of life."

But here is the problem. Most of the time, the market goes nowhere. Only 25 to 40 percent of the time does the market trend, during the remaining 60 to 75 percent of the time the market goes nowhere. Most professional traders make nearly all of their profits in a trending market.

Here is our problem: we don't want to spend out time entering and exiting a market that is going nowhere. If the market is going nowhere, then the opportunity is NO-WHERE. We want to change that to opportunity is NOW-HERE.



TREND AND TRADING RANGE

Traders try to profit from changes in prices: Buy low and sell high or sell short high and cover low. Even a quick look at a chart reveals that markets spend most of their time in trading ranges. They spend less time in trends.

A trend exits when prices keep rising or falling over time. In an uptrend, each rally reaches a higher high than the preceding rally and each decline stops at a higher level than the preceding decline. In a downtrend each decline falls to a lower low than the preceding decline and each rally stops at a lower level than the preceding decline and each rally stops at a lower level than the preceding rally. In trading range most rallies stop at about the same high and declines peter out at about the low.

A trader needs to identify trends and trading ranges. It is easier to trade during trends than in trading ranges.

PSYCHOLOGY OF TRENDS AND TRADING RANGE

An uptrend emerges when bulls are stronger than bears and their buying forces prices up. If bears manage to push prices down, bulls return in force, break the decline, and force prices to a new high. Downtrends occur when bears are stronger and their selling pushes markets down. When a flurry of buying lifts prices, bears sell short into that rally, stop it, and send prices to new lows.

When bulls or bears are equally strong or weak, prices stay in a trading range. When bulls

manage to push prices up, bears sell short into that rally and prices fall. Bargain hunters step in and break the decline, bears cover shorts, their buying fuels a minor rally, and the cycle repeats.

Prices in trading ranges go nowhere, just as crowds spend most of their time in aimless mulling. Markets spend most of their time in trading ranges than trends because aimlessness is more common among people than purposeful action. When a crowd becomes agitated or excited, it surges and creates a trend.

THE HARD RIGHT EDGE

Identifying trends and trading ranges is one of the hardest tasks in technical analysis. It is easy to find them in the middle of the chart, but the closer you get to the right edge, the harder it gets.

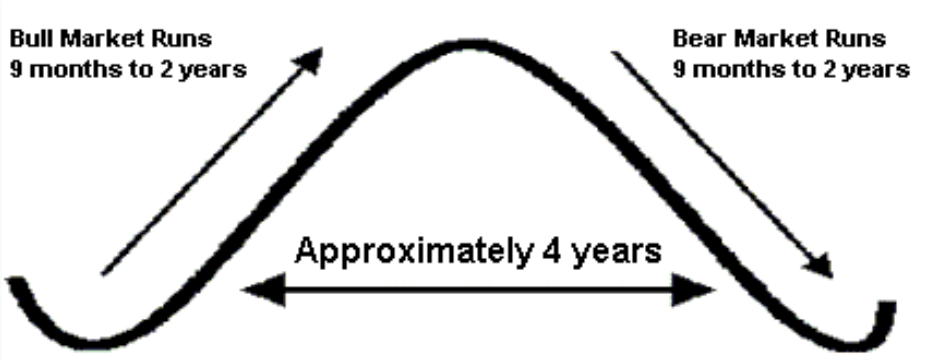
Trends and trading ranges clearly stand out on old charts. Experts show those charts on seminars and make it seem easy to catch trends. Trouble is your broker does not allow you to trade in the middle of the chart. He says you must make your trading decisions at the hard right edge of the chart!

The past is fixed and easy to analyze. The future is fluid and uncertain. By the time you identify a trend, a good chunk of it is already gone. Nobody rings a bell when a trend dissolves into a trading range. By the time you recognize the change, you will lose some money trying to trade as if the market was still trending.

Most people cannot accept uncertainty. They have a strong emotional need to be right. They hang on to losing positions, waiting for the market to turn and make them whole. Trying to be right in the market is very expensive. Professional traders get out of losing trades fast. When the market deviates from your analysis, you have to cut losses without fuss or emotions.

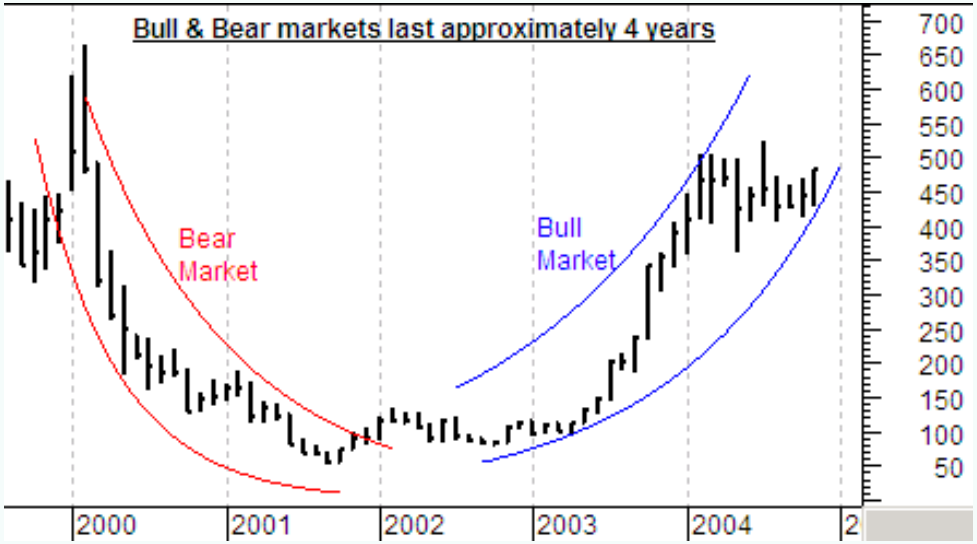
THREE IMPORTANT TRENDS

You may be asking yourself the question, "What is a trend and how long does it last?" There are countless numbers of trends, but before the advent of intraday charts, there were three generally accepted durations: primary, intermediate and short-term.



The ***main or primary trend***, is often referred to as a bull or bear market. Bulls go up and bears go down. They typically last about nine months to two years with bear market troughs separated by just under four years. These trends revolve around the business cycle and tend to repeat whether the weak phase of the cycle is an actual recession, or if there is no recession and just slow growth.

Primary Trend



Primary trends are not straight-line affairs, but are a series of rallies and reactions. These series of rallies and reactions are known as ***intermediate or medium term trends***.

The intermediate or medium term trend can vary in length from as little as six weeks to as much as nine months, or the length of a very short primary trend.

Intermediate trends typically develop as a result of changing perceptions concerning

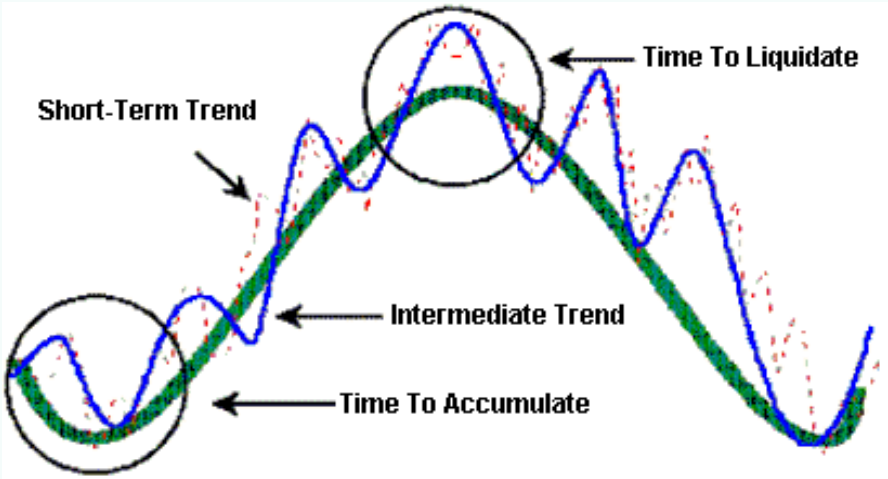
economic, financial, or political events. It is important to have some understanding of the direction of the main or primary trend because rallies in bull markets are strong and reactions are weak. On the other hand, reactions in bear markets are strong and rallies are short, sharp, and generally, unpredictable.

If you have a fix on the underlying primary trend, you will be better prepared for the nature of the intermediate rallies and the reactions that will unfold.

In turn, intermediate trends can be broken down into ***short-term trends***, which last from as little as two weeks to as much as five or six weeks.

Market Cycle Model

As an investor, it is best to accumulate when the primary trend is in the early stages of reversing from down to up, and liquidate when the trend is reversing from up to down. Second, as traders, we are better off if we position ourselves with the long side in a bull market since that is when short-term uptrends tend to have the greatest magnitude. By the same token, it does not usually pay to short in a bull market because declines can be quite brief and reversals to the upside unexpectedly sharp. If you are going to make a mistake, it is more likely to come from a counter-cyclical trade.



If you're an intraday trader, you may think all of this does not apply to you, but really, it does. It is important to remember that even on intraday charts, the predominant trend determines the magnitude and duration of the shorter moves. You may not feel a three-hour rally is closely related to a two-year primary bull market move, but it is just as related as a five or six-day trend.

Charles Dow, the author of the venerable Dow theory, stated at the turn of the century that

the stock market had three trends. The long term trend lasted several years, the intermediate trend lasted several months and anything shorter than that was a minor trend. Robert Rhea, the great market technician of the 1930s, compared the three market trends to a tide, a wave and a ripple. He believed that traders should trade in the direction of the market tide and take advantage of the waves and the ripples to time your entry and exit.

CONFLICTING TIMEFRAMES

Most traders ignore the fact that markets usually are both in a trend and in a trading range at the same time! They pick one time frame such as daily or hourly and look for trades on the daily charts. With their attention fixed on daily or hourly charts, trends from other time frames, such as weekly or 10 minute trend keep sneaking up on them and wrecking havoc with their plans.

Markets exist in several time frames simultaneously. They exist on a 10 minute chart, an hourly chart, a daily chart, a weekly chart, and any other chart. Traders often feel confused when they look at charts in different time frames and they see the markets going in several directions at once. The market may look for a buy on a daily chart and a sell on the weekly chart, and vice versa. The signals in different time frames of the same market often contradict one another. Which of them will you follow? Most traders pick one time frame and close their eyes to others − until a sudden move outside of "their" time frame hits them.

A FACTOR OF FIVE

When you are in doubt of a trend, step back and examine the charts in a timeframe that is larger than the one you are trying to trade. A factor of 5 links all timeframes. If you start with the weekly charts and proceed to the dailies, you will notice that there are five trading days to a week. As your timeframe narrows, you will look at hourly charts − and there are approximately 5 to 6 trading hours to a trading day. Intra day traders can proceed even further and look at 10 minute charts, followed by 2 minute charts. All are related by a factor of five. The proper way to analyze any market is to analyze it in at least two time frames. If you analyze daily charts, you must first examine the weekly charts and so on. This search for greater perspective is one of the key principles of the Traders Edge Multiple Time Frame Trading System.

METHOD AND TECHNIQUES

There is no single magic method to identifying trends and trading ranges. There are several methods and it pays to combine them. When they confirm one another, their message is reinforced. When they contradict one another, it is better to pass up the trade.

1. Analyze the pattern of highs and lows. When rallies keep reaching higher levels and declines keep stopping at higher levels they identify an uptrend. The pattern of lower lows and lower highs identifies a downtrend, and the pattern of irregular highs and lows points to a trading range.

2. Draw an uptrendline connecting significant recent lows and a downtrendline connecting significant recent highs. The slope of the latest trendline identifies the current trend A significant high or low on a daily chart is the highest high or lowest low for at least a week. As you study charts, you become better at identifying those points. Technical analysis is partly a science and partly an art.

3. The direction of a slope of a moving average identifies the trend. If a moving average has not reached a new high or low in a month, then the market is in a trading range.

4. Several market indicators, such as MACD and the Directional system help identify trends. The Directional system is especially good at catching early stages of new trends.

CONCLUSION

Markets change, new opportunities emerge, and old ones melt away. Good traders are successful but humble people – they always learn. The primary purpose of the market is to find immediately the exact price where there is an equal disagreement on value and an agreement on price. Speculators get paid for buying what nobody wants when nobody wants it and selling what everybody wants when everybody wants it. Remember there is no such thing as a bad trader. There is only a well trained or badly trained trader.