TRADING BASICS

An introduction to Trading in the Stock market

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Introduction:

This book was made to help you get closer to being financially free because that is what we are all achieving, financial freedom.

In this book, I will share how I trade in the stock market in depth.

It is important to remember that in the beginning, you will have to put a lot of time into working, but if you are doing it correctly at some point, all the assets you’ve built will be able to pay for your lifestyle and you will have successfully escaped the rat race, you are free.

This book will also introduce you to the stock market, talk about the two types of positions you can take when making a transaction in the stock market. It will go over all the different types of brokerage accounts and which ones are right for you depending on your financial goals.

I hope you enjoy it

If you have any questions feel free to dm me on my socials :D

Disclaimer:

Everything mentioned in this book is not financial advice

Everything here mentioned has educational and informational content only, but it is by no means financial advice

After you read it you will take this information and see if it applies to you, because there is no such thing as one size fits all

Trading Basics:

Trading stocks is an extremely risky thing to do, but some people make a very good living out of it.

Trading has three main branches:

- Day Trading
  Buying and selling a stock on the same day, for a profit
- Swing Trading
  The same thing as day trading but this type can last up to weeks or months, sometimes it can become long-term if you believe in the stock, and are willing to hold it for that long.
- Options Trading
  Options trading is a bit more complicated. It involves buying a premium that allows you to get stocks cheaper than they are. This is usually considered the one with the most potential gain, however, people will jump on it without knowing exactly what it is and lose all their money. So do your research first ;)

Day Trading:

Day trading is opening a position (buying or selling) and closing it on the same day (selling or buying).

There are two types of trading accounts:

- Margin
  The trading account where you can borrow up to 4x the money you have in the account This is a problem for beginners as you can lose much more money than you already had in the first place
- Cash
  The trading account where you can't use the brokerage's money, you can only your money

PDT rule (Pattern Day Trader rule)

This is a rule in every single broker that states that a trader can't open and close a position more than 3 times within the same trading day.

This rule however only applies to margin accounts.

If you don't follow this rule you usually get banned from the platform for about 90 days (depending on your brokerage account) and your money will be "trapped" there for those 90 days.

This is one other reason why cash accounts are better

The only problem with cash accounts is that the money you deposit or the money you use in the account usually takes three trading days for it to be deposited back in the account.

That means that each trade you make will take three days so that you will be able to use that money again.

So a good strategy is to divide your overall money in the account and only trade with (your account balance/3) for each day

This is in place so you don't miss out on any day on the market, trying to catch runner stocks every day on the market.

For instance, let's say you had $3000 on a cash account, on the first day you use only $1000, on the next day you have only $2000, and you use another $1000. On the third day, you have only $1000 and you use that last money. But on the fourth day, you receive the first $1000 you used on the first day. And if you don't use your money until the 6th day you will have all your money back in the account
Here is a diagram for you to visually see that:

Cash Account	Balance used	Balance left
Day 1	-$1000	$2000
Day 2	-$1000	$1000
Day 3	-$1000	$0
Day 4	$0	$1000 + profits

Day 5	$0	$2000 + profits
Day 6	$0	$3000 + profits

Margin accounts do not have this “wait” for your money to settle but you risk using the brokerage money and since you are a beginner you may lose more money than you had in the first place.

So my recommendation is to start with a cash account and only upgrade to a margin account when you are very advanced in your trading journey.

Don’t even think about a margin account currently since it can hurt you more than it can benefit you.

Now the part where everyone likes a Day Trading Strategy

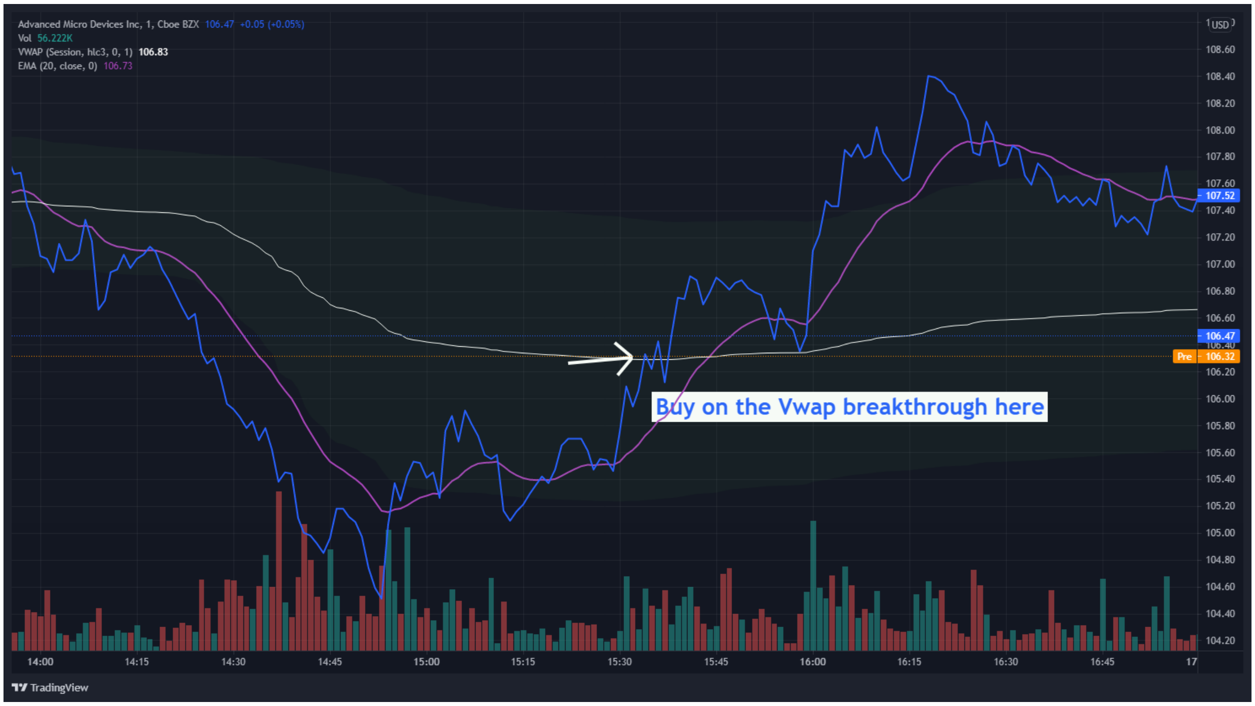
This is a strategy that relies on two indicators

Vwap - Volume Weighted Average Price

EMA 20 - Exponential Moving Price

These indicators however are only available on platforms like Webull.com, TD Ameritrade.com, and online charts such as tradingview.com, but they are not available on platforms such as Robinhood.com (which are not focused on day trading)

Now you can trade this two ways, one of them is when a stock breaks through the Vwap which is called a **breakout play**



VWAP is the white line, Ema is the purple line

Now, this is one of the most important things you have to learn when Day Trading.

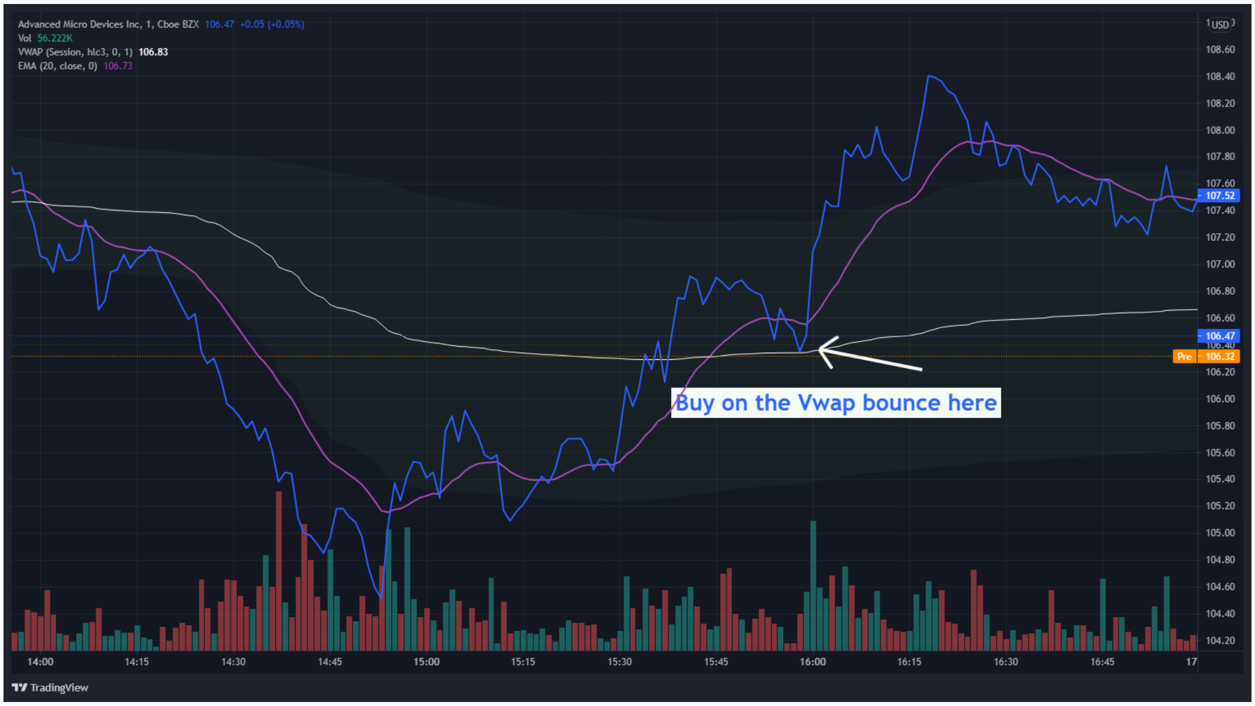
DON'T LET A GREEN TRADE TURN RED

Since Day Trading is short term, and you are fully relying on the momentum of the stock, the company itself is usually bad, thus you usually don't want to be holding that stock for the long term, therefore, you have to take profits when you can.

It is like the famous line, cut your losses short, and let your winners run

And in this case, you would have set your stop loss (which is essentially a price that you state, that your stock will automatically sell when it reaches that price to reduce risk) would be the EMA 20 line (purple line in chart).

The other way of trading this would be a bounce play, which is when the stock bounces on the Vwap as seen in the figure below



The stock bounced perfectly on the Vwap so you would have bought there and only sold when it touched the Ema line, or you could have sold earlier and still made profits.

In the same chart you can see that two of these plays can happen back to back, so try out both and see which one fits you.

There are plenty of other strategies in Day Trading but, make sure you master one strategy you like before moving on to another otherwise you will end up not mastering any at all.

Swing Trading:

Swing Trading is usually done in bigger stocks since you are going to be holding them for much longer therefore you ideally want to have a security that overnight they won't go bankrupt.

While it can still be done with "bad companies" as some do with Day Trading, I don't recommend it since you have no way of knowing when these stocks will go bankrupt.

For Swing Trading it is a more pricing play not so much as a "strategy"

I think about Swing Trading like this, you look at an established company such as Tesla and you buy when it falls immensely, usually because of a stock market correction, or panic sellers going wild.

Since you know that Tesla will probably not be going bankrupt any time soon, you know that when it falls, that is a great opportunity to buy, and even if it keeps falling lower, you can still buy more so you can get a better average price.

Here is an example:

Tesla about a month ago almost hit 900 and in less than a month it falls to 600, and as you know Tesla is a great company so I automatically know that this is a great opportunity to buy the stock.

Think of a stock falling as a sale for buying a great stock, but make sure that the companies you are buying are reliable companies, such as Google, Facebook, Amazon, Tesla, etc.

It is a simple strategy but when mastered it can work like a charm when used and implemented correctly.

Another example:

Apple one of the most famous and reliable companies in the world, peaked at 143 in February and in March it dropped down to 115, that's when you know it is a good sale, and even if it dropped further, I would happily hold the stock since I know that it will come back up eventually, it would only be a matter a time.

Options:

Options are one of the double-edged trading options (no pun intended) in this list.

Some people turn thousands into millions, and others spend millions and go broke.

But realistically this happens in any other type of trading in the stock market, however options are a bit different than buying regular shares in the stock market, therefore there is a big lack of understanding of options in the market.

So an option involves around a contract

A Contract controls 100 shares of a stock

The Expiration date (of the contract) is the time in which the contract expires and by then you have

The Premium is the amount of money that you use to buy the contract

The strike price is what the stock should be worth at the end of the contract

With options, I have a similar mindset with it as I do with swing trading.

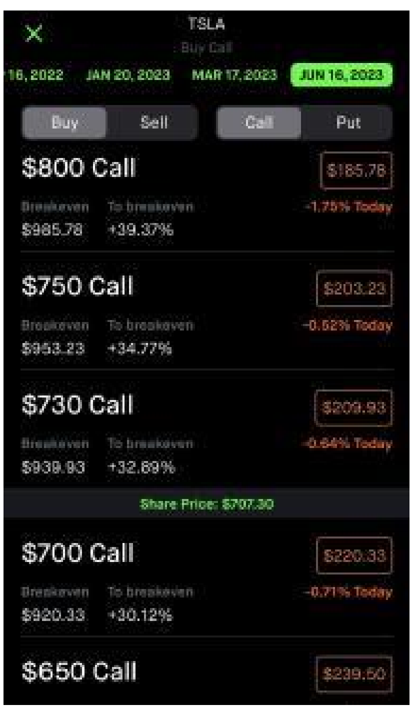
I only trade options with established companies, as the non-established companies are hard to know what will happen with then exactly

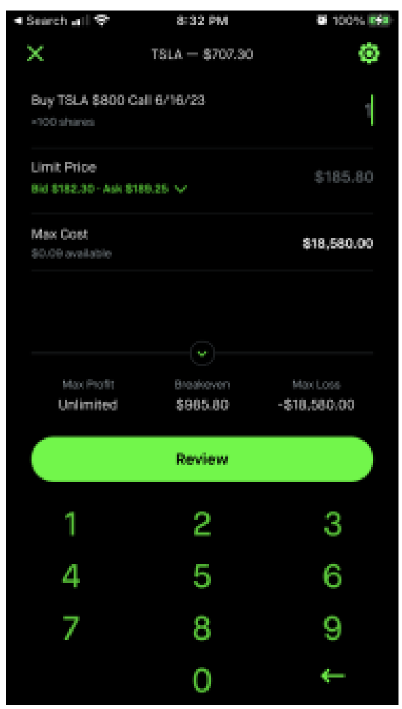
But with established companies you can tell that in the long term they will most likely go up and thus you can buy call options which indicates that you think the stock will go up by your desired expiration date.

With options since you pay the premium and not the price for the 100 shares, sometimes you can get 100 shares of a stock for cheaper than what you would get for buying a regular 100 shares of stock.

For instance, if you want to invest in Tesla but you don’t have the capital to buy 100 shares regularly, you can buy an option contract to get 100 shares of that company.

For instance, to buy 100 shares of Tesla at the current price today (700) would be 70000 however if you were to buy a call option for tesla at a strike price of 800 it would be around 20000 (18000) which is a great way to enter a position for a lower price.





Now you might notice that it mentions that to break even Tesla needs to reach borderline 1000, that is because you are buying a premium of a stock and not the stock itself.

Since for this example the call option would be on June 16th, 2023, Tesla will likely be more than $1000. If it reaches $1000 before the expiration date you can still take your profits and you don't necessarily have to wait until the expiration date.

You can still lose your money if the stock falls lower than your strike price, but that is the risk that you pay for getting 100 shares of a stock for much cheaper than what you would have gotten by paying a regular 100 shares of that stock.

Are you the 1%?

The reality of the situation is that people will start Trading because they see a huge potential in making quick money in the stock market, but it's not as simple as that.

So the question is if you are part of the 1% club?

Usually, people will break two accounts before having a successful run, however, this is only 1% of people because most of the time people will break an account and then give up on it and call the market a scam.

You have to understand that you will have to study the market vigorously, you will have to put hundreds of hours into analyzing the market, and most likely if you don't start ethically you might break at least two accounts, which can cost you thousands of dollars depending on how much you put on them.

Most people won't be successful traders, and that is okay, trading is extremely hard, and most people are better off investing in the market for the long term, usually index funds, and not day trading.

But if you truly understand that it is a small door that only a few can go through, and you are willing to do whatever it takes, you can attempt to begin Day Trading, or Options, or Swing Trading, but do it ETHICALLY!

If you don't succeed that is fine, you can still make money in the market without necessarily Day trading, with investing in index funds or individual stocks

How to (Ethically) start Trading

The ethical way to start trading is to start a paper trading account, which is essentially a trading account with fake money but with real market conditions to help you

The recommended amount of fake money you should trade with should be similar to the amount you would deposit on a real account when you start trading with real money.

You should only move to a real trading account, with real money, when you are proven to be profitable consistently with your profits on the Paper Trading Account.

This is more of a feeling because I can say a number/timeframe where you have to be profitable before you start your real account, but that depends heavily on the market conditions, and your conditions (mindset, etc).

Make sure that you are profitable in the market enough for you to tell you that at this point it is not luck, but you truly know what you are doing and are profitable

Disclaimer: Profitable doesn't mean you aren't taking any losses, as losses will happen, but it is all about cutting your losses short and letting your winners run. So profitable means that in a bigger time frame you are profitable overall. Some days you are going to lose money, but if you can still be profitable meaning you have more green days than red days, or your green days are bigger and can compensate for your red days, over a big timeframe, that means you are profitable.

Platforms to Trade

There are hundreds of brokerage accounts to choose from so the best thing you can do is to try out multiple ones and see which ones you like and which ones you don't like

That being said there are the top platforms that I believe you can choose from and test these to find out which one you like

Platforms to trade:

Robinhood - Not ideal for trading since it doesn't have indicators such as the VWAP but if you really like the platform you can use it to buy only, and watch the charts on a platform such as tradingview (online website) (Get a free stock when you sign up through this link)

Webull - Has the basic indicators, and it is great for intermediate investors (Get two free stocks when you sign up through this link)

TD Ameritrade ThinkorSwim - The best platform for traders, however, it can be very complicated to understand what exactly is going on there therefore some people like to start with a platform such as Robinhood or Webull, get the basics, and then at some point transition to TD Ameritrade ThinkorSwim.

Tradingview - Have not tried it myself, but I have heard that it can be beneficial since the charts there are great and they do happen to have a brokerage where you can buy and sell stocks

Conclusion:

Hope you enjoyed this ebook.

If you liked the book don’t forget to join my free newsletter where I share my discoveries entering the workforce and what I have learned that week, or the new books I read, or the new things I got into.

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