

TRADING

There are several types of trading styles that persons seeking to profit from short term trades in the market may wish to use. Here is a brief description of the most widely used short term trading styles.

Day Trading

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 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 intra-day basis.

Day trading can be further subdivided into a number of styles, including 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 following describes some major mistakes which, if not avoided or dealt with, will almost certainly cause your day trading career to end in failure.

Lack of a Trading Plan

Many day traders fail because they trade "on the fly", without the benefit of any pre-determined trading plan. It is absolutely critical to have a complete, well-thought out plan of action before entering any trade. This includes the number of shares you will buy and at what price, the price at which you will sell the shares (if they go up) and the price at which you will sell the shares (if they go down) to cut your losses. You should also decide, as part of your plan, how long you will hold the shares if the price fails to move at all, and at what price you may wish to add to or reduce your position.

Failure to Control Emotions

It is highly unlikely that you will become a successful day trader if you allow your emotions to control your trading decisions. The most destructive

emotions leading to poor trading decisions are greed, fear and pride.

Greed tends to keep a trader from closing out a position when a reasonable profit has already been made, in the hope that the stock price will go even higher. Staying in the market for too long (hoping for a huge windfall) is a strategy that backfires more often than not. Greed also tends to result in rash or impulsive trades.

Fear will have traders selling existing positions too soon or avoid buying a stock that should be bought. In other word, fear leads to trading decisions becoming "paralyzed".

Pride tends to keep a trader in a losing position for too long because of a reluctance to admit that the original trading decision may not have been the right one.

If you trade using the discipline that a good trading plan is designed to foster, keeping your emotions from unduly influencing your trading decisions will be easier to achieve.

The Dow added 23.60 points, or 0.23%, to 10,395.07; S&P was up 4.12 points, or 0.36%, to 1134.42; and the NASDAQ gained 19.77 points, or 1%, to 1994.15.

Another major contributing reason to day trading failure, is the reluctance of many traders to exit from a losing position. Many traders hold on to losing positions for far too long, in the hope that the share price will recover. Even worse is the practice of adding to a losing position so as to "average down". This is a recipe for disaster. It is essential to limit (and accept) losses in advance, in accordance with your trading plan, by pre-determining your exit point if the stock price moves against you. Stop-loss orders provide a convenient method of doing this.

Lack of Commitment

Day traders who are unwilling to make a serious commitment of time and effort to study and monitor the markets, engage in training and education so as to enable them to learn about technical analysis, new trading systems and methods,

order routing software, etc., will almost always fail.

Over-Trading

Many traders feel the need to hold positions in the market at all times on every trading day. There are many occasions, however, where it is best to stand aside and avoid holding any position in the markets at all. Always conserve your trading capital for those trading days offering good trading opportunities. In addition, it is best to avoid holding positions in too many stocks at one time, as this complicates your trading plan and increases transaction costs.

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. 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.

Position Trading

Position trading is similar to swing trading, but with a longer time horizon. Position traders hold stocks for a time period anywhere from one day to several weeks or months. These traders seek to identify stocks where the technical trends suggest a possible large movement in price is likely to occur, but which may not be fully played out for several weeks or months.

Online Trading

Online trading is not really properly described as a trading style. Rather, online trading is simply a term that refers to the medium used to enter and execute trades. Online traders, which can include long term investors, as well as day, swing

and position traders, use either an Internet connection or a direct access online trading platform to access and execute trades with Web based brokers.

↪ 4.2 VOCABULARY NOTES AND COMMENTARIES

day trading денна торгівля

position trading позиційна торгівля

swing trading короткострокова торгівля

electronic communication networks (ECN) електронна система обміну інформацією

Nasdaq Level II система презентації котирувань, що відображає основних маркет мейкерів

Electronic Direct Access Trading (EDAT) systems система прямого доступу до електронної торгівлі