Basic Procedure

Pick stocks priced between $100 and $250.

Stocks in the $100 to $250 range are the best stocks to trade with my system. These are the stocks that react the best to my intra-day enter/exit strategy. They tend to move very fast, and they offer more intra-day trade setups. Also they only require 100-share block trades, thus keeping your commissions fees lower.

For instance, if you're trading a lower priced stock—let's say in the $10–$30 range—in order to make any money you have to purchase 500 shares on each trade. When you're trading through a pay-per-share broker, this means you're paying 500 percent more in commissions on each trade.

Even stocks priced at $90 tend to be slow movers and will not react properly to my system. So keep this in mind from now on: if you're accustomed to trading stocks priced *under $100*, you *cannot* trade them with my system. Soon you'll understand why.

The Best Stocks to Trade with My System

The first point I want to make is that the stocks you pick now will be traded with *both* intra-day and swing systems. Most S&P 500 stocks priced $100–$250 will be sufficient to trade my system. Most will be *blue chip* stocks—these are Wall Street's stocks!

Another very important criterion is that the company should have experienced a couple of earnings release dates and should have always remained above $100. This proves their consistency. Here's a precise rule to follow:

> The stock must have had at least two consecutive earnings releases and remained above $100 for an entire six-month period.

If your stock does fall below $100, then you immediately stop trading it and wait until the next earnings release until you start trading it again. A great example is BIDU. As you can see in the chart in Figure 1.1, it dropped below $100 and then shot back after earnings, where it remained above $100. Then I started trading it again.

Picking stocks should *not* feel like pulling teeth. It should *not* be scary guesswork. My system of trading requires that you remain with the same stocks for an extended period—perhaps your entire day trading career. Some stocks, like IBM, have been trading above $100 for more than five years straight and have never been above $250. For those reasons, IBM is one of the most consistently traded stocks in my trading room and on Wall Street.

The more familiar you become with your stock(s), the better you'll get at applying my trading method, particularly the "rhythm factor." You need to be in perfect rhythm with your stock. You must get

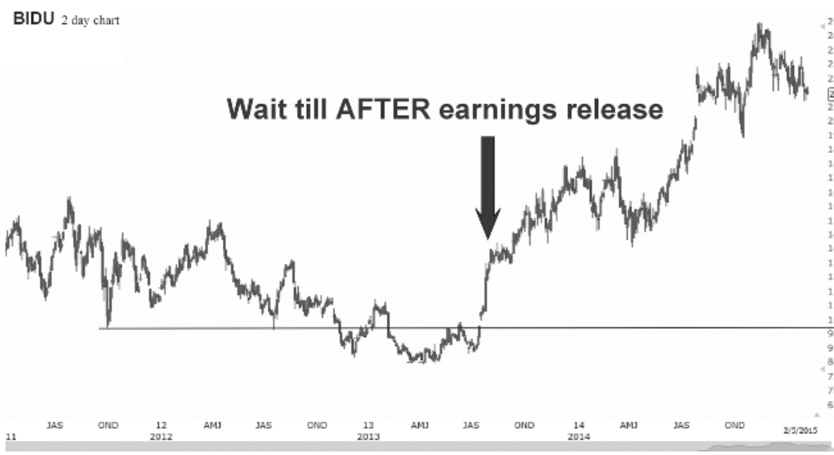

FIGURE 1.1 BIDU 2-Day Chart

to know its patterns—the speed of its price movements, or its lack of speed.

For instance, I'm currently trading GS and TSLA. I can guarantee that TSLA moves at least three times faster than GS, and that at earnings releases, TSLA will gap up/down three times as much—even when their price levels are not very different.

In this manual you'll be viewing several charts with $100+ stocks. These stocks are great examples of what works best with my system. The main point I want to have resonate with you is that once you find your stock, you stick with it every day for at least three months.

Why? Every three months, you have earnings release dates. Your stock may fall below $100 after earnings is announced and Wall Street sells off shares; or just the opposite happens—it rises well above $250 and can't be traded anymore. Two great examples of stock over $250 are AAPL and AMZN. (I'm referring of course to AAPL prior to the 7:1 split in 2014.) I was trading AMZN and APPL very consistently until they each started climbing above $250. They started moving much faster than I was accustomed to, and most importantly, they ate up way too much of my capital buying power. Also, the spread between bid/ask was ridiculous! In some cases the spread was as much as $1 during regular market hours.

Later I show that, while the bid/ask spread is not so important with regard to swing entries, for intra-day entries it's critical; the spreads can't be that far apart. The reason for this is when you're trading intra-day, a spread that's too wide will make you miss your trades—that applies to both entries and exits. As I've mentioned before, ideally the spread should be only a penny, and never more than 25 cents.

If you're a greenhorn and you've just read that and you glance at a *pre-market* Level 2 chart, you will certainly see some humongous spreads between the bid/ask prices. You will see this after hours and on weekends as well. This is normal; it doesn't mean anything. The only thing you should remember for now is that when trying to determine if a stock between $100 and $250 has a tight gap (less than 25 cents) you want to make sure that the time that you watch is between 9:30 A.M. and 4:00 P.M. EST—only during market hours.

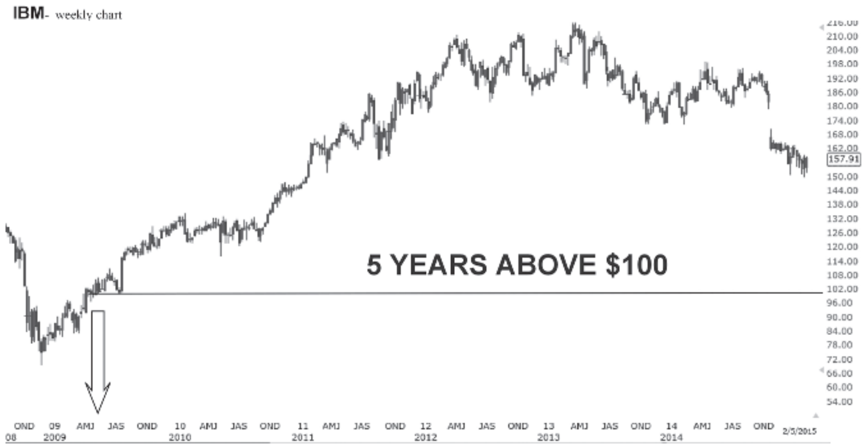

FIGURE 1.2 IBM Weekly Chart

Figure 1.2 is an example of how some stocks can consistently trade between $100 and $250 for over five years. IBM is certainly one of my most traded stocks.

There's one other major factor that helps me determine whether I should add a stock to my list or whether I should take it down. The stock must have pre-market data. You will soon learn just how important the pre-market levels are and how to use them. Many stocks, even high-priced stocks over $100, do not have pre-market data. A great example is RL. I used to trade it, but once the pre-market data stopped, I had no choice—I had to get rid of it.

Take consistent profits of 15 cents per 100-block trade.

In this next section I map the framework for how you find your intra-day setups. Once you know your entry you'll execute the order, and once you're filled you'll immediately throw a limit order for a 15-cent profit. This will be the same on every trade, no more and no less. This is critical to your long-term profitability. Consistency is key.

My system is based on taking *profits on the reversals* from intra-day trends. In fact, you can consider it *countertrend trading* both for intra-day and swing setups. When you're countertrend trading there are *always* key price levels that *retrace* when broken, particularly with our specialized stocks. My goal is to show you how to spot these levels forming in real time.

The key reason why I never seek more than 15 cents on each trade is that small reversals in price usually do not run more than 25 cents, even when I trade $100+ stocks. In other words, in order to have a higher probability of consistent profits off the intra-day reversals in price, you should never try to get more than 15 cents; 25 cents is twice as hard to achieve as taking a 15-cent profit. This will make much more sense when you start testing my system on the demo trading platform in my training program.

Also keep in mind that you'll ultimately be seeking swing trades and profiting $1.50 or more, so there's no sense in trying to achieve more than 15 cents on an intra-day quick trade.

From this point forward, you should put yourself on high alert for the ravenous mouth of the *greed factor*. And be very mindful of this: suppose you're trying to get 25 cents on *all* trades (a static limit order). You'll quickly find that half your trades will go 15 cents into the green and then retrace back into the red. Therefore, all your exit points (at a profit) should be exactly the same at 15 cents, or you may turn a profit into a loss.

Additional Reasons Why You Should Take Only 15 Cents on Each Trade

My system of intra-day trading depends on the general market barriers of 25 cents. Due to these barriers, it's more difficult to profit over 25 cents on each trade. There are four 25-cent barriers at any given time of day and price level. I list them in the chart in Figure 1.3.

If you're trading IBM, for instance, and it's currently priced at $154.<u>20</u>, and the price has been trending up from that price level,

The four 25 cent barriers:

.00
.25
.50
.75

FIGURE 1.3 25-Cent Barriers

then here are the next general market barriers (or general resistance when the price is increasing):

$154.25, first 25 cents barrier at .25
$154.50, then
$154.75, then
$155.00, then …

The 25-cent general market barriers *do not* mean you trade short/long positions simply because they hit these levels—of course not. I thoroughly revisit this later. For now, understand that 15-cent profit taking is the max you will profit once you enter your intra-day trade.

Practice with stop-loss safeguards with a max loss of $3.

I elaborate this strategy in Chapter 3. There you will learn that I *do not* use static stop-loss orders such as exiting a trade if I'm $300 in the red or if my position goes 5 percent against me—quite the opposite. I've devised an alternative method of stop-loss, and I call it *strategy stop-loss*. I offer a couple of examples below because I know you're probably scratching your head after reading that I don't have static stop-loss orders built into my system.

The most common situation where I strategy-stop-loss is at the closing bell. I do this if I'm in the red and holding *intra-day* positions. (As I've mentioned before, this doesn't apply in swing trading. With those you can hold overnight.) I also stop-loss if I need to immediately free up some capital to allocate to another stock trade that's more likely to profit that day. I use this maneuver for both intra-day and swing trades.

Other examples are: I stop-loss on the day of an earnings release. I stop-loss if devastating news hits the wire. (When I say *devastating*, I mean the entire market is blitzed. I hate to say it, but 9/11? That bad!) In other words, I only stop-loss when my risk factors are enormous or I need to quickly free up some capital.

Finally, one of my biggest reasons to strategy-stop-loss is when I find that my price levels and/or entry levels are off, or if I made a mistake.

Remember that when you use my system, you *do not* exit at a loss simply because the price runs against you. This may be hard to swallow, because in most cases the price *will* run against you. That's totally normal with my system and you need to *get used to it*. It makes no sense whatsoever to stop-loss when down a nominal value or percentage.

"Why not?" you might ask. This system will show you that if you're in the red, then you're about to hit even stronger entry levels, those levels you need to enter at. *So why would you be exiting at a loss when you should be adding to your current trade?* The answer to this question will take some time and experience to digest. Even after learning the framework here, this is by far one of the most critical reasons why you can't learn this system in its entirety on paper.

For instance, chances are you've been taught to stop-loss when down a certain amount or percentage. That's how most amateurs trade. In my training program you learn the exact opposite. I need to reprogram you, and I can't do that without coaching you, and I can't coach you on paper.

The hardest part of this system is not getting scared when in the red. You need thick skin to be a real day trader. Most traders who attempt this without formal training make the same mistake: they cut their profits early, break even, or simply stop-loss when deep in the red. On the contrary, when using my system you'll find that if you had just held a bit longer and added to your position at key levels, then it would have been a profit.

I'm sure you've had this happen: you exit a trade at a loss, and 10 minutes later or a day later the stock price reverses back to the green, but you exited already, so no dice. I can promise your fear will make this happen to you if you don't master this system. Even advanced traders in my one-year program still struggle with this psychological barrier.

Remember: this is countertrend trading. I don't expect it to make much sense right now, but I promise that later you'll understand why I don't use nominal values or percentages to determine a stop-loss exit. Think about it. If I were to stop-loss every time I got $3 in the red ($300 loss on 100 shares), then about 90 percent of all my past profitable trades would be losses instead, to date. I'm showing you, greenhorn, how to be safe instead of sorry.

And now you might ask: "So why a static $3 stop-loss right here in this lesson?" In the swing strategy part you'll learn that you should start intra-day trading positions once your intra-day setups are within $3 of your swing entry. This does not mean you simply enter a trade once you're within $3 of a swing level. It certainly isn't that easy.

My purpose is to get you used to intra-day trading while in the red as much as $3. That translates to $300 in the red when holding a 100-share position. If you don't know your swing levels yet, then you need to be prepared to exit trade once you're down $3. Simply put, I'm enforcing a *static $3 stop-loss rule* here for the purpose of *training only*.

I *cannot* stress this enough right now: if I'm in the red, I *do not* intra-day trade and simply take $300 losses. Of course not—this is strictly for learning purposes. Until you master the swing levels, you need to learn to stop-loss on your intra-day trades. I can almost guarantee you that you will make a gazillion mistakes on picking the correct intra-day levels to trade. Therefore, the $3 stop-loss is a safety measure for beginners to this system.

In the next part I show you a very specific trading strategy that's enforced with specific rules and procedures that you need to know when attempting intra-day trading with this system. You'll inevitably make classic mistakes, and that's why I just showed you the $300 max stop-loss safeguard.