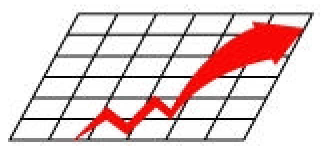
The Definitive Guide to Swing Trading Stocks



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DISCLAIMER

The information provided is not to be considered as a recommendation to buy certain stocks and is provided solely as an information resource to help traders make their own decisions. Past performance is no guarantee of future success. It is important to note that no system or methodology has ever been developed that can guarantee profits or ensure freedom from losses. No representation or implication is being made that using *The Definitive Guide to Swing Trading Stocks* will provide information that guarantees profits or ensures freedom from losses.

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I. INTRODUCTION

I have been involved in the investment markets for over 13 years. I remember the first time I learned about stock trading and how I thought that it was truly amazing to be able to make money from anywhere in the world where I had access to a computer and/or telephone. It is in many ways the perfect business opportunity. Some of the unique benefits include, no employees, low overhead, no physical inventory, instant liquidity, multiple ways to leverage capital, independent of economy, independent of climate, easy to automate if desired, favorable tax considerations and the ability to take time off at any time.

People are drawn to stock trading for various reasons. Your reasons might include:

- Making additional spending income
- Produce capital for other investments such as real estate
- Saving for your children's education
- Becoming self-employed as a full-time trader
- Building your nest egg for retirement

In the chapters and pages that follow you will learn some of the best techniques I have found for extracting profits from the stock market. In my library of stock trading books and courses, I have found that 90% of it is the same information just rehashed in some way (you will understand why that is after reading this guide), however, if I learned just one new thing. I considered the purchase worth my while. You will find not just one thing, but many things that will elevate your trading into new levels in this guide.

I have written this guide in a very concise manner. You won't find a lot of anecdotal stories or hypothetical filler. I tell you what you need to know and how I use it with an example of what I am talking about. The really unique part is that I apply all of the methods to the SAME price chart. This is proof that I haven't chosen a chart that has a unique occurrence of some event that only occurs once in a blue moon.

Here's to your success in the markets!

Kevin Brown
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II. FOR WHOM WAS THIS GUIDE WRITTEN

The Definitive Guide to Swing Trading Stocks was written for anyone wanting to learn easy to trade and time tested stock trading methods that are successful in all stock sectors, all time frames and all economies.

Regardless of your motivation, at some point in time you needed (or will need) someone to teach you the ropes as it pertains to trading stocks. Whether it be a seminar, videos or a written guide such as this. There are lots of ways to make money in the stock markets but my experience has taught me that the simplest methods work best. The focus of the methods I use are driven by two things.

#1. Only trade by the rules (More on these in the next section)

#2. Keeping my trading simple

In general, I always tend to lean towards keeping things simple. Making stock trading more complicated than it really needs to be is the tendency for many the intellectual trader that eventually burns out. After all it can't be as simple as just picking up the phone or logging on to a website, placing an order and making money. Can it? No, it is not quite that simple but at the same time you also don't need to stare at a screen all day, spend thousands of dollars for trading software, setup multiple monitors, purchase real-time level II feeds and subscribe to several advisory services. Throughout this guide I will provide you with a double look at things. In one light I will provide "best practices" so that you are aware of them and then I will also give you my take on the same thing and why I have taken that position. I think this is a more balanced approach and fair to you as a reader.

III. THE GROUND RULES

If you are like me, you may have been “taken” a time or two by vendors offering stock trading information that seemed too good to be true but you just had to find out for yourself. That need to “find out” was driven by some internal beliefs. Some good; some bad. Over the years I have come to understand a few things about the markets and would like to debunk a few of the most prevalent unfounded beliefs for you. My hope is that I can pull you alongside me and we then look out of the same window. To do this you will need to relinquish or at least adjust some beliefs you may have regarding trading and the stock markets. This guide contains many methods and their related “rules”. Below are the basic “ground rules” that must be used to guide all of your decisions as a trader, regardless of if you use my trading methods or not.

No “Secret” methods will work

There are so many trading offers out there that supposedly have “little-know” or “secret formulas” for finding profitable stock trades. Here’s the most profitable secret you need to know…NO trading method that is “secret” or “little-known” will work. You must come to understand that the very premise of making a profit is making trades (long or short) that everyone else trading. Now think about this. If it’s “secret” then very few traders are using it. It takes more than a few traders to move a stock price. The preponderance of buyers or sellers is what causes a stock to rally or decline in the first place. This concept is so simple yet so many traders are suckered into thinking that there is some method, system, technique or indicator out there that no one else knows about and will give them the “winning edge. You don’t want to be a lone wolf with a winning edge in trading; you want to be part of the pack on the right side of the price moves. It is, always has been, and always will be that plain and simple.

Price is the ONLY reality

I only use price charts for determining when to enter and exit trades. This is otherwise known as “technical analysis”. Price charts are more than just current and historical references for a stock’s price; they are also visual representations of opinions for all active participants for that stock. This is an important concept to grasp. If something important (positive or negative) is going on in a company, someone knows about it, and if they know about it they are acting on it, and if they are acting on it(defined as placing trading orders for that stock), it will be reflected in price. Since price is how everyone keeps score in the market, this it what I mostly pay attention to when it comes to money management, entries and exits. I allow the price sensitive rules of my methods to dictate all actions. I’m still waiting for someone to disprove this fact. In other words, nobody has shown me how orders being placed for a stock DO NOT affect its price. Understand that this is not a single instance it is a cumulative affect but it is always there.

Now, did you also know that there are only 4 market price occurrences that are possible? However, a plethora of technical indicators have been created to measure just these few occurrences. The only possible price occurrences are ***trends***, ***corrections***, ***consolidations*** and ***breakouts***. That's it! All technical indicators or methods attempt to measure or capitalize on one of these stock price occurrences. Now there are no less than 10 different ways to measure each of these occurrences. That would give you a minimum of 40 different trading indicators with over 3,628,800 possible combinations! Now you know why there are so many trading books, course, videos, websites available out there offering trading method information. They are merely measuring the same things in a multitude of ways and calling it NEW & REVOLUTIONARY! Hardly, this is also how some traders fool themselves. They create their own indicators and find a consistent pattern and they themselves believe they have found something that nobody else knows about, when it fact they are measuring the same price occurrence others are measuring but in a different way.

A high percentage of winning trades is NOT the answer

This is truly the hardest lesson to teach ANY trader. So many vendors out there are pitching their amazing winning streaks. Who wouldn't be mesmerized by " 87% winning trades" or "Over 140 winning trades in a row"? What they don't tell you is that the winning trade's profits are so small that the few but larger losing trades and commissions tend to recoup them completely. Also many times, the trading systems statistics also seem to be curiously not present. As a trader you must learn to concentrate on what is important and that is the "size" of your average loser vs. average winner. Most of these offers are labeled as set-it and forget-it "trading systems." A "trading system is a mechanical way of trading stocks. Systems are comprised of a hard and fast set of rules that must be followed each and every time. No opinions or subjectivity are involved. Though I do not subscribe to being this rigid in my methods, I do believe trading systems can be good for some traders and this guide includes a section for "trading system" construction. In it I also show you how to calculate a positive mathematical expectation for profit using trading statistics.

Risk is ALWAYS present

Risk can never be eliminated; the best you can do is *manage* it. Even so-called "risk free" investments such as savings accounts run the risk of the cost of living growing faster than your account balance. Therefore good stock trading strategies should always address risk management.

There are only five (5) ways to manage risk. Risk can be:

- Avoided – A trader avoids risk by not entering the market at inopportune times
- Transferred – A trader transfers the risks to others when it exits positions
- Reduced – A trader uses stop-loss orders to reduce risk
- Distributed – A trader distributes risk by trading a number of individual issues vs. just one
- Assumed – A trader assumes risk by entering positions or by not entering a position. The second scenario assumes the risk of "lost opportunity"

What is Swing Trading?

There are three primary styles for trading stocks. Below I compare swing trading to other 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 objective is to earn a small per share profit on each transaction while minimizing the risk.

- 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.

Swing trading

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 1 to 15 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.

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.