**Lesson 1: An Introduction to Day Trading**In our last lesson we finished up our discussion on big picture fundamentals with a look at the Conference Board’s Index of Leading Economic Indicators. In today’s lesson we are going to start a new series of lessons which is meant to tie everything together that we have learned up to this point starting with an explanation of the different types of traders.

While there are many different styles of trading most if not all styles can be categorized in to one of three broad categories which are: Day Trading, Swing Trading, and Trend Trading.

According to data on the number of searches for each of the above categories, Day Trading is by far the most popular type of trading so we will start by analyzing the advantages and disadvantages of this type of trading.

The definition of a day trader is a trader who typically completes both the purchase and the sale of a financial instrument within a single trading day. One of the biggest advantages that I think most traders would site about day trading is that since the trade is closed out before the end of the trading day you do not have overnight exposure. This is an especially important point in the stock and futures markets where it is difficult or in some cases not possible to close a position after normal trading hours.

As many of you already know, the difference between the close of the previous day and the open of the next day can be large if a major event happens outside of trading hours. This puts non day traders who hold positions overnight into a somewhat risky position where they could be forced to take a much larger loss than they otherwise would have.

The second big advantage that I think many traders would site is that good day traders are more nimble, as they move in and out of the markets quickly seeking trades with a high success rate and cutting their losses quickly. This allows them to take advantage of more opportunities than are available to longer term traders.

The biggest disadvantage that I think most traders would site about day trading is the greater transaction costs that are involved. Very simply, because day trader’s trade more they generate more commissions and pay the spread a greater number of times. As their transaction costs are higher they must generate greater profits than strategies which do not generate as much in transaction costs, all else being equal.

The second disadvantage to day trading that I think many traders would site is the amount of resources that are required in relation to longer term methods of trading. This is true from a time, concentration, and technology standpoint as in general day traders spend more time in front of the screen, have to have more concentration, and more technology such as high powered charts and news feeds than longer term traders do.

So with all this in mind why is it that day trading is by far the most popular type of trading? One reason in my opinion is the advantages that I have listed above which are very appealing to many professional traders. Unfortunately however my opinion is that the bigger reason is that day trading allows people who have gambling tendencies to get the biggest gambling fix so to speak from the market.

As we have discussed in our series on the psychology of trading this is not a healthy reason to trade and is one of the major reasons why the large majority of day traders fail.

That’s our lesson for today. In tomorrow’s lesson we are going to look at the second most popular style of trading, swing trading, so we hope to see you in that lesson.

**Lesson 2: An Introduction to Swing Trading**In our last lesson we gave an introduction to the three main styles of trading and looked specifically at the advantages and disadvantages of the most popular style of trading, day trading. In today’s lesson we are going to look at the advantages and disadvantages of the second most popular style of trading, swing trading.

Swing trading is generally defined as a style of trading where positions are held for larger gains over multiple days and up to several weeks. Traders who promote this style of trading normally feel that it combines the best of both day trading and position trading. What this means is that these traders feel swing trading gives you a similar ability to amplify gains as day trading does, with the slow pace and lower transaction costs of position trading.

A second advantage that many traders would site about swing trading, is that good swing traders plan their entries and exits in advance and since positions are held for longer than one day this method of trading does not have the same intensity that day trading does. While some traders prefer the intensity of day trading, traders who want a less stressful trading career often opt for swing trading as a result.

I think most traders would agree that the biggest disadvantage to swing trading is the increased risk per trade. Because swing traders hold positions for longer periods of time, their average risk per trade is generally higher than day traders in order to give the position enough breathing room to work. As swing traders hold positions overnight they are also exposed to the overnight risk which we learned about in our lesson on day trading.

Secondly, although swing trading does not require as much work as day trading, it still generally requires more work and resources than position trading, as good swing traders normally follow the markets very closely even when not entering or exiting a trade.

**Lesson 3: An Introduction to Position Trading**

In our last lesson we looked at the advantages and disadvantages of the second most popular style of trading, swing trading. In today’s lesson we are going to look at the third and final category of trading, position trading.

Position Trading, which is also referred to as trend trading, generally involves holding a position for three to six months to capture a fundamental change in the value of the financial instrument that is being traded. As this is the case position traders will generally be more prone to integrating at least some fundamental analysis into their trading, than will day and swing traders.

Probably the biggest advantage to position trading is it generally involves the least amount of time of the three trading styles. After they have spent the significant time necessary to learn about trading in general, many good position traders will spend just several hours a week analyzing the market and making their trades. As they are holding positions for long periods of time good position traders have their stop loss and profit targets in place before making the trade, requiring that the trader only monitor the position to make sure nothing significant has changed since his original trading decision.

The second major advantage that I think many traders would site about position trading is that because you are in positions for long periods of time with wide stop loss orders, your positions have room to breath and are much less likely to get stopped out because of random market noise than with the other two styles.

As we learned in our lesson on Swing Trading, holding positions over longer time frames generally requires wider stop loss orders. While as we have just stated this is an advantage from a market noise standpoint it is also a disadvantage from a larger average risk per trade standpoint.

The second main disadvantage that I think most traders would site is that position traders miss out on many of the shorter term opportunities that day traders and swing traders can use to amplify their profits. This is not only true from a length of trade standpoint but also from a capital standpoint. Because position traders hold positions for long periods of time their trading capital is also tied up in those trades for longer periods of time, restricting them from taking advantage of as many opportunities.

We are going to go into a bit more detail on how to choose the style of trading which is best for each trader in our lesson on the trader’s business plan, but you should now have a good understanding of what each style entails. The last thing that I would like to point out here is that often times different styles work better in different types of market conditions. With this in mind many traders will learn a bit about each of these styles so they can place longer or shorter term trades depending on the market conditions at the time.

That’s our lesson for today, in our next lesson we are going to begin to take a look at the different markets that are available to traders so we hope to see you in that lesson.

**Lesson 4: 10 Components of a Trading Journal**In our last lesson we finished up our discussion the different styles of trading with a look at the longer term style of position trading. In today’s lesson we are going to start a new discussion on one of the trader’s most powerful tools, the trading journal.

As I think most people who are successful at anything will tell you, a major factor that separates the successful from the unsuccessful is those who are successful look at each experience as a chance to learn and grow where those who are not move from one experience to another without learning much at all. With this in mind one of the major things that separates the profitable trader from the unprofitable trader is an openness to learning from each trade, and a willingness to put in the effort it takes to document and periodically review each trade that is made.

Traders who document their trades do so in trading journals. This can be as simple as writing down certain details of your trades in a notebook or in a word document, however those who know a bit about excel normally find this a much more powerful option

**Below are 10 things that in my opinion it is important to document about each trade:**

1. The general market conditions for that specific trading day. For example is there a lot of volatility in the market, is the market trading lower or higher, ranging or trending?

2. Why you entered the trade, the time you entered the trade, and the price you entered the trade.

3. Why you exited the trade, the time you exited the trade, and the price you excited the trade.

4. Whether the trade was a long or short trade.

5. What happened with the market from the time you opened the trade to the time that you closed the trade.

6. The money management parameters you used in the trade and which we covered in our previous lessons on the subject.

7. Many traders will also attach a chart with their analysis on it to help them remember the trade when they review their trading journal.

8. Where you were weak that particular day and what you are going to do to address those weaknesses.

9. Where you were strong that day and what you are going to do to address those strengths.

10. Any other thoughts that you had that day which should be noted.

That’s our lesson for today. In tomorrow’s lesson we will look at the next and equally important step of how to go about reviewing your trading journal periodically in order to make sure that you leverage your journal to improve your trading.

**Lesson 5: 7 Things Your Trading Journal Should Tell You**In our last lesson we began our discussion on how successful traders leverage trading journals in order to learn from their past mistakes and successes. In today’s lesson we are going to wrap up our discussion on trading journals with a look at what to look for when reviewing your trades.

Simply writing the days activity down in your trading journal is the first step. The next and equally important step is to review your journal on a regular basis to see what is working and what is not. This way you can leverage your journal to help you improve in areas where you are weak and make sure you continue to leverage your strengths where you are strong.

There is a great article from Brett Steenbarger at Traderfeed.com which addresses some of the major things that traders should analyze when reviewing their trading journal. In this article Dr. Steenbarger says:

* ***Number of long and short trades****– I correlate this to the trend condition of the market to see if I’m trading with the current or against it; if I’m trading in a one-sided way in a range-bound market. The number of trades also tells me if I’m overtrading.*
* ***Number of winning and losing trades****– When I’m trading well, I have more winning trades than losers by a reasonably healthy margin. When the ratio dips for more than a short time period, I need to re-evaluate my trading and my trading strategies.*
* ***Time holding trades****– I’m a short-term trader, and I tend to have a relatively narrow time band in which I hold trades. Moving beyond that band tells me I’m either cutting trades short or going for home runs—and neither of those have worked for me in the past.*
* ***Time holding losing trades versus winners****– It is very hard to make money over time by holding losers. Eventually, the size of the losers becomes greater than the winners so that even a trader who has more winning trades than losers can end up in the red.*
* ***Profit/Loss broken down by long and short trades and broken down by market condition****. This tells me if I’m trading ranges better than breakout movements; whether I’m doing better on the long side or the short side. If my performance is significantly worse in one mode than another, I start to examine my trading for needed improvements.*

I would add to this list average profit on profitable trades vs. average loss on unprofitable trades and largest drawdown or loss the account suffered before returning to profitably.

**Lesson 6: The 20 Components of a Successful Trading Plan**In our last lesson we finished up our discussion on trading journals with a look at the important things to look for when reviewing past trades. In today’s lesson we are going to discuss how to handle trading like a business with a discussion of how to compile a trading business plan.

One of the leading causes for the failure of many businesses is their lack of planning. I think most successful people would agree that if you want to be successful in life and business you need to have a plan for how to obtain that success, set goals to meet along the way, and then work on executing your plan and meeting your goals.

Trading is no different from any other business in this sense and it is my opinion that those who fail to plan out their trading like a business are doomed to failure as well. With this in mind it is important to have a written business plan for your trading just as you would for any other business.

**Below are some of the things which should be included in that plan, most if not all of which you should now have a good understanding of if you have watched all of our lessons up to this point.**

* What are your reasons for wanting to become a trader?
* What do you hope to gain from trading? Be specific here. If the possibility of making a lot of money has drawn you towards trading then list out how much money you want to make from trading and what you plan to do with that money if you make it.
* What are the things that are going to separate you from the large majority of traders who fail?
* What are your biggest weaknesses?
* How do you plan to address your weaknesses and leverage your strengths?
* How much time can you devote towards actively following the market?
* Do you plan to day trade, swing trade, position trade or a combination of the three? Does your choice here reflect the time you have to devote to the markets?
* What market or markets do you plan to trade and why?
* At what times throughout the day are you going to spend actually trading, researching trades, and then learning about the market?
* What are your criteria for entering a trade?
* What are your criteria for exiting a trade?
* What is your money management strategy?
* How will you know if one of the pieces of your strategy stops working?
* After identifying that one of the pieces of your strategy has stopped working what will you do to address it?
* What trading software and equipment you will use to trade and how much is it?
* What Broker/Brokers will you use?
* Do you plan to add money to your account and if so where is that money going to come from?
* If you are profitable do you plan to reinvest profits or withdraw some or all of them?
* If you plan to trade full time how you will support yourself if you aren’t profitable right away.
* How much money do you plan to start to trade with? Does the math work out when considering taxes, all costs, living expenses and your initial trading balance?

As you can see, just as with any business, there are many things to consider before jumping into trading. From my experience however those who actually take the time to think about and write down the answers to each of the above questions have a much higher chance of success than those who do not.

That’s our lesson for today and this completes the InformedTrades.com basics of trading course. I hope you have had as much fun and learned as much from our first trading basics course as I have from putting it together.