

The essential guide to day trading



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In some ways, day trading is like a 'made-to-order' profession. To a large extent, you can work when and where you want. You can dictate exactly how you want to spend your day, working from your office or home, or even when travelling.

With private day trading, you can be your own boss, you are in control. So what is the downside? The very fact that you have total control is sometimes a frightening prospect for many, especially those who find it difficult to create their own timetable.

For investors, one of the keys to success is being able to understand what factors influence market expectations and how these can change over time.

A number of factors can impact sentiment toward a company, both positive and negative.

From a day trading perspective, it's a good idea to re-evaluate your rules at the end of each month, due to the shorter time frame of this style of trading. Keep in mind that you will break your rules occasionally - it's inevitable, but it's not a good habit to get into. Find ways to stop yourself from breaking your rules and look to address it if it is becoming a problem.

How is day trading different to longer term trading?

Technically speaking, the only difference between day trading and other forms of trading is the time frame used. Instead of taking positions for weeks or years, day traders typically hold positions throughout the day, often closing positions before the market close. Active day trading requires much more focus than other types of trading due to the shorter time frame, and because the market moves quickly over the shorter term.

Things to remember when day trading

Know your state of mind

Take stock of the thoughts and motivations that are running through your mind while you're trading and if your thoughts are a little 'off', don't hesitate to take a break. Day trading is hard work and it requires constant attention. You need to be motivated and focused when you are trading.

Follow your own rules

Discipline is by far one of the most important attributes that successful traders have in common. Keep a watchful eye on your bad habits. Know what they are and look to resolve them as soon as possible. One way to check to see if you are trading in a disciplined way is to define a set of rules to govern your trading decisions and then check to see if you are following them. Your rules should be carefully considered and they should be designed to help you trade successfully - you just need to make sure that you follow them.

Manage your money

Money management is essential if you want to become a successful day trader. In fact, money management is one of the essential elements of successful trading over any time frame. Certainly, if you are planning to trade for many years to come, you are going to need to apply successful money management strategies. There are whole books dedicated to money management, containing many approaches, and you need to take the time to find a method that you are comfortable with.

Some traders look to enter trades that have the potential to gain twice what they are risking on the trade. This is known as a risk-to-reward ratio. If a risk-to-reward in excess of 1 to 2 is maintained, their chances of remaining profitable are better. Remember, it doesn't matter if you win 90% of the time if your losses are much larger than your wins. What's important is that your wins are larger than your losses.

Always use risk management

Never forget to use stop losses when you are placing your orders into the market. This is your insurance. You need to be aware of exactly where your stops should be prior to entering the trade. This is a good habit to have and it will ensure you are constantly thinking of your downside protection.

The psychology of day trading

Once you have developed an informed opinion - try to **act quickly and decisively**. When your levels have been reached and the prerequisites for your trade have been met, you may want to consider acting, otherwise all of your planning and research may have been for nothing.

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You should always try to **remain calm**. This is especially true when you are faced with a loss. Maintain a calm disposition and react in accordance with your rules. Mentally rehearse your worst-case scenarios so, if they do occur, you are prepared and can keep a level head.

Don't let other traders' opinions influence your trading.

Sometimes other traders will want to give you their views on the market and offer advice without giving consideration to your trading methodology. Remember, no one has put as much effort into your trading system and style as you have. You know your time frames and your stops, so you need to stick to them. Other traders will have a bias. If you want advice you should consult a professional who will be able to appreciate your style of trading and give their thoughts accordingly, without throwing you off course.

Maintain your independence. If you find yourself reaching for the phone or looking to send an email to someone in order to back up your view, then exit the trade. You should be able to trust your own instincts. Once you have conducted your analysis and calculations and you've reached your conclusions, then don't doubt yourself. There is a reason why you have come up with your entry and exit signals at your key points, so believe in those numbers and do not second-guess yourself.

Emphasis needs to be placed on the **importance of patience** when trading. If there is nothing to trade then there is nothing to trade. Don't force yourself to trade if there are no viable trading opportunities present. Once you are 'in sync' with your market you may find that knowing when to trade becomes easier. Your intuition is something that sharpens as you become more experienced as a trader.

Be aware of your stress levels. Day trading can be stressful as it requires constant attention and motivation. You can counter this by taking time to sit back and think about your priorities. Get some perspective on trading and its place in your life. Increased stress levels can have a negative impact on your trading decisions so, if you feel like your stress levels are rising, it's probably a good time to step away. You can come back to trading later when your stress levels have returned to normal.

When you are trading it's also necessary to **be flexible** with your positions. Market conditions can change rapidly and so you need to be flexible with your thoughts and opinions on the market. You need to be ready to adapt to changing market conditions all the time if you want to stay ahead.

Stick to your chosen market and a particular time frame. When you trade like this it helps to put you in charge. These are two parameters you can control in an environment that can change very quickly.

Never be afraid of taking profits. If you find yourself getting out of a trade at a profit and the trend continues, then let the other traders out there fight over the last part of the move. At least you will have made a profit, which is a lot better for your account balance than making a loss! If you continue to worry that you are missing out on profits after you exit, then you could design and test a re-entry technique that you can build some confidence around. If, as a short-term trader, you find yourself making profits on a daily basis then it's going to be very difficult to lose money in the long term. So, as long as you're making more profits than losses, you shouldn't worry too much about taking profits a little bit early sometimes.

Keep detailed trading records

When you are running a particular trade you should look to write down your reasons for entering it. This will help you later when you wish to evaluate your past trades in order to learn from them. By keeping good records and writing down precisely why you entered the trade you can increase your learning curve and success. Taking the extra time to do this can help you improve your trading.

You need to understand whether you are in front or behind for the day, week or month. Keep these numbers handy as you need to take responsibility for them. We all know that there is a lot to be learned from hindsight so, after you have been day trading for a month, take some time to evaluate what you have done. Look at your trades and ask yourself the question: "If I could do this trade again, what would I do differently?" This can help you to become a more consistent and successful trader in the long term.

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