

9 Reasons Why I do not Trade During Lunch

It took close to 19 months for me to realize that I made the majority of my gains between 9:50 am and 11:00 am. I spent countless hours trying all types of techniques to gain an upper hand when trading the entire day. The reality of it is that I was approaching trading the same way a person would approach a 9-to-5 job; come in, sit down and hit the keyboard all day. Trading is a lot like sales. The people who kill themselves but miss their quotas are heavily scrutinized by their leadership team. Whereas the person who hits their quotas while strolling into work every day at 10:30 is the cool kid on the block. It took me nearly two years to realize that in trading you can't simply work hard, you have to do what makes money. This was completely counter to how I was raised and conditioned from a young child. To me it felt almost as if I was slacking if I was done trading by noon (hence the side blogging career). Well let me help you skip pass the guilt and simply explain why reducing your hours of trading are a good idea for your pockets. Simply put, trading between 11am – 2pm (stock market lunch time) is the toughest time of the day to make money, so do yourself a favor and stay away.

1. Lack of Volume

For you to make money there has to be another person on the other side of the trade. Assuming you are day trading full-time, odds are you are using between 10k and 100k cash per trade. If this is the case, imagine what happens after the morning session and you are trying to move 20k shares. What I found is that the market is thinly traded during lunch.

People simply are not at their desk. So, as I would attempt to buy a stock, magically the ask price would jump a penny or

two. Conversely, when trying to close a position if I placed my limit order out there it was almost always not hit. It's as if everyone saw my big fat order just sitting out there and since there was not enough volume to push things my way I would often have to settle on the price.

2. Chopsy Price Movement

With light volume comes choppy price movement. Since there are not active participants buying and selling stocks during lunch, you will inevitably find yourself analyzing setups that fall apart the minute you enter the trade. You will see clear breakouts that casually fail for no reason and retreat. You will see oversold positions that instead of having an automatic rally just float sideways without purpose. The reason these setups act so irrationally is there simply is no strength behind the moves. Any person off the street moving a few thousand shares could cause key levels to trigger. At least in the morning when I was wrong the market would slap me hard in the face with a sharp price move. Being wrong during the middle of the day is a slow and agonizing death. The market won't allow you to be wrong in your trading assumptions; you will have to wait 3 hours for it to play out.

This slow drain literally drove me to the point of wanting to pick up my monitor and throw it out of my office window.

3. Lack of Opportunities

Since I trade breakouts, in the morning there are tons of choices. I can be so picky that I can take a list of 10 possible trades and reduce it down to my favorite two. During the middle of the day there are only a handful of worthwhile setups possessing volume and the proper formation. This leads to everyone looking at the same charts. This triggers cannibalization of the price movement as everyone is looking to cash in and make a few quick bucks. Since people are

reluctant to let the stocks trend because the minute they see some gains they close out their positions, you will find yourself feeling like you are fighting the market. Whereas in the morning a 2 percent gain will fall in your lap, after a quarter of a percent gain during lunch you will feel like you just fought Mike Tyson during his prime.

4. Follow the Smart Money

The big money players do not sit at their desk during the middle of the day looking at charts and level 2 screens. They are out having lunch, talking to prospective clients; doing anything other than trading the market. Why? Because they know that money is made following the least path of resistance. If the big players move in 100k or 250k share lots, they are well aware that the people they need to fill their orders on the other end are not at their desk. So, while you may not have the big bucks yet, why not do what the smart money does with their money?

5. Overtrading

While there are literally thousands of stocks you can trade, there are only so many good setups present in the market at any given time. When you introduce the concept of all day trading, you have to ask yourself are you really making money from these activities or are you an action junkie looking for your next fix?

Do you find yourself hacking from trade-to-trade during lunch? Are you putting on more trades from 11am – 2pm than any other time of the day? Are you losing money or barely breaking even? If you have answered yes to the last three questions you are likely overtrading.

What do you have to prove? I vividly remember my Mom calling me around 12:30 in the afternoon and I was in the car coming

back from the grocery store. She asked me “what are you doing? Are you not working today?”. I then went on to explain that I finish up most of the times by 11 and how I looked over all of my trades and I was making over 80% of my profits in the morning. I remember my Mom kind of pausing and taking it in, because as I was saying it I remember thinking this isn't going to go over well. The guilt I felt for not putting in the hours began to run over me again. I quickly ran home and began looking through my charts and trying to see if there was a way to trade the middle of the day. Right before I took that plunge of hacking away again during lunch, I had to remind myself that while my Mom loves me dearly and wants the best for me, I have to stay true to who I am as a trader. At the end of the day if you work 2 hours or 6 and a half, if you make more money trading 2 hours a day, then that's what you need to do. Overtrading will only add to your stress and fatten the pockets of your online broker.

6. Keeping your gains from the Morning

A hard concept for new traders is to taking money out of the market. I have since learned to take out money from my trading profits on a consistent basis. I do this because it makes the money real. I remember one trade in particular where I was trading options and made over 100k in about a month and a half. I remember showing my wife the account statement and feeling really proud of my accomplishment. Do you think I took that money out and bought a condo or took a nice vacation? No! I was more concerned with taking the 150k cash I had and turning that into a 500k. While these numbers maybe larger or smaller than what you trade, the principle is the same even for day trading. If you make a good amount of money during the morning session, why risk it during the middle of the day. Unless you have proven to yourself you can consistently make money during the middle of the day what's

the point? Why not just close up shop, take some profits and spend time with your kids?

7. Protect your Confidence

Trading on the surface is about money, but underneath it all is whether you believe you deserve to be successful. If you show me a trader not making money, I can tell you that for whatever reason that person does not feel they are due the success. If you want the market to give you money it will.

Like anything in life, a positive attitude and self discipline are a hard combo to deny.

I would consistently leave the morning session a victor with high hopes of making thousands per day, only to have my confidence assaulted over a series of bad lunchtime trades.

So, not only would I give back a good portion of my trading profits, I was also giving back my confidence and belief in myself that I was capable of pulling off the feat of making a great living as a day trader.

8. Your Health

Have you ever had a headache from intense concentration and looking at a computer screen all day? I remember going to Best Buy to get a privacy screen to reduce the pain from the monitor refreshing all day. I tried using a black background on my charts as well and even reduced the brightness of my screen. No matter what, at 4:00pm my head would feel like it was going to explode. It wasn't until the following morning that I would actually feel the headache dissipate. Are you having these types of headaches? Wouldn't it be great to just give your eyes a rest during the middle of the day?

9. Preparing for Afternoon Battle

I personally do not trade the afternoon time block (2pm – 4pm), but I know there are those who make a decent living sizing up the late day trades. Instead of just hacking your way through the light volume lunch session, you could use this time to look for great afternoon setups. Take this time to identify the stocks that are testing two-day highs. Try finding the plays that have completely reversed their morning gap down and are looking to burn the shorts. By the time 2pm hits and the big players have returned to their desks from lunch, you will be ready and prepared to seize the opportunities present because you have taken the time to do your homework.

In summary, I know there are probably some of you that say “I can make money trading during lunch.” You know what, you are probably right. But I do know that to make money day trading, you need the market to move enough in your favor to book profits and pay commissions. If we just reduce trading down to its rawest levels, you need market participants to achieve this goal and during the day most people can be found trading during the morning and afternoon sessions. So, if you get nothing else out of this article, know that if you are like me and you make your money during pockets of the day, it’s okay.

As long as you are consistently able to make money, that’s all that matters at the end of the day.