

How to Day Trade – Guide for Successful Trading

Before we go any further in this article, let's lay down some ground rules. The purpose of this article is to provide you with the foundation for how to build a successful day trading career. To be honest with you, it's kind of silly for someone to even propose that they can explain to you in one article how to day trade. I would actually compare it to logging onto your favorite search engine and typing in "How to Pilot Airplanes". If you don't get the analogy, then you have landed in the right place.

So, where do we begin? If I had to define a blue print for how to day trade I would group it into 7 core components.

1. Money Management
2. Mastering One's Emotions
3. Strict Adherence to the Rules of the Game
4. Taking Profits
5. Simple Technical Analysis
6. Trading in the Morning
7. Practice Makes Perfect

You may read the above list and think there are a few things missing or I have listed too much. That's A-ok, remember this is my list of what builds a successful day trading career.

Money Management

Do you have enough money to pay your bills and trade? How much are you willing to lose on each trade? How much money do you use on each trade? These are the basic types of questions you will need to ask yourself throughout the trading day.

Remember, this is day trading, so you will not have a lot of time to work through every scenario. Whatever your money management rules are you will need to stick to them. Finding a position and sticking to it will be a common theme throughout this article. Below are my rules for money management, pick and choose what works for you:

1. Only use 10% of your margin. For example, if you have 100k cash which would afford you 400k in margin only use 40k on any one position.
2. Never have more than 30% of your margin in float at any given time. If you figured out that this translates to holding a maximum of three trades at once, you are pretty sharp!
3. Never lose more than 2% of your trading capital in one trade. This would mean if you have 100k in cash the maximum you can lose is 2 thousand dollars. This would translate to a lost of 5\$. Just in case you are wondering you should never lose 5% on a day trade.
4. You need 50 times more cash than your monthly expenses. If this sounds excessive to you, well it is. The goal here is for you to have a successful day trading career and not an expensive vacation from your day job. If this explanation was not enough for you, feel free to read through – [How Much Money do I need to Start Day Trading?](#)
5. You need to pay yourself. If you are a fan of [shark tank](#) like me, one of the first things Mr. Wonderful will ask you is how much have you paid yourself. So, every quarter you need to pay yourself 20% of your profits. If this isn't enough to pay your bills, well you don't have enough money to become a day trader.
6. If you go on a one week losing streak, reduce the amount of money you allow yourself to trade by 25%. If you have another losing week, drop down to 50%. If you have a third losing week drop down to only using 25%. I guarantee you if you go from using 40k per trade down to 10 thousand per trade, discipline will have a funny way

of finding you.

7. If you go on a winning streak don't allow yourself to use more margin. Unlike losing streaks where you reduce the amount of in float per trade, you never increase your percentage use of available margin when things are going well. Greed is a cancer and it should be your mission to live a long life.

Mastering One's Emotions

I really love martial arts movies and not just for the fight scenes. Have you ever noticed how the Senseis are in a constant state of control. No matter how unruly the student or the problem at hand, the Master never loses his cool. As a trader you need to get to this Zen state. The emotionally charged trader you may see on T.V. yelling at his screen may be great for ratings, but this lack of control will ultimately lead to financial ruin. Below are ground rules on mastering your emotions:

1. You must have balance in your life. A trader looking at screens all day doesn't make for someone other people want to hang around. Spend time with those you love, it will recharge your soul.
2. Like the greatest athletes of the world who can shrug off a bad game and turn around the next night and light it up, you too must have a short memory. Beating yourself up will accomplish two things: (1) stress and (2) financial ruin.
3. Staying focus for the long haul. For those of you that have run a marathon do you remember what mile 26 feels like? How you have to keep a clear mind and completely focus on your goal of completing the race. Well day trading requires this same level of focus.

If you feel you need more time in the "chair", please read

through our [day trading psychology](#) section.

Strict Adherence to the Rules of the Game

Like most Americans I spend a good portion of my Sundays watching football. I'll be the first to admit football is a violent sport; however, over the years the league has worked to protect its players through a number of rule changes. Imagine what it would feel like to watch football without the referees. There would likely be complete chaos on the field. If you do not have rules for how you are trading and adhere to those rules 100% of the time, you are in essence watching a tackle football game without the referees. Below is the one thing you need to know from this core component:

1. Your rules must reflect your goals and risk profile as a trader. What works for Joe Trader may prove disastrous for you
2. Always follow your rules to the letter
3. Never break rule 1 or 2.

Taking Profits

When Apple makes a new iPhone to sell it is priced accordingly. You as a consumer are able to understand this pricing structure and determine if you can afford to join the Apple faithful. For some reason traders get caught in the trap of "letting the trade play out". I have yet to meet a trader who has made money always letting the trade "play out". The people that make money in the market are those who have a clear target and take their profits as the trade is going in the favor. You never want to be the person who had the winning trade only to see things go horribly wrong. So, to make sure you do not end up on that long list of victims try the following:

1. Have a set price target for when you will exit a trade. Remember, day trading is more than getting every single penny out of the trade. There is something called "time" which is an important factor. If you are able to win 2 trades in the time it takes for you to wait for your grand slam then who cares. You may not have the glorious trade to talk with your friends about over dinner, but you will not go break [taking profits](#)

Simple Technical Analysis

As long as people could plot price action on a piece of paper there has been a chart prophet running around. In the old days there was the trader with his weekly charts and today it's the automated trading system gurus. Let me save you all kinds of time and money and stress to you the importance of keeping things simple. A million indicators on your chart only does one thing, give you a false sense of security going into battle before you kindly give your money over to the more seasoned traders. So, when you get the urge to add just one more indicator please read the following:

1. You need to see the price action in the form of candlesticks
2. You will need volume on your chart
3. You will need a simple moving average to monitor the trend
4. You can have a maximum of two additional indicators

I can already hear the naysayers complaining that there are a million more ways to make money in technical analysis. Guess what, they are right! That's the entire point of limiting the amount of technical information you assess on the chart. It is better to be a master of a few things versus knowing a little about everything and bouncing around from one gimmick to the next.

Trading in the Morning

All of you day traders who say money can be made all day, please go sit down. It takes years upon years of trading to be able to march out there and trade from 9:30 to 4 and make money. Your goal as a new trader is to be the master of few things if you haven't picked that up in the article thus far. Day trading is a business of volatility. You need someone on the other side of the transaction as a willing participant to execute the order at your requested price. So, for me it's always made sense to focus your attention in the morning. Where else can you find a number of plays, with high liquidity in the same place. If you don't believe me bore yourself to death trading from 11am – 2pm; don't forget traders are human who need to take breaks and eat lunch just like the rest of us. Below are a few ground rules for trading in the morning:

1. Wait until 9:50 to open your first trade. The first 20 minutes of trading is so random you will lose your marbles trying to piece it all together.
2. Do not enter any new trades after 10:20. By keeping yourself locked to a 30-minute window for opening new positions it forces you to have laser focus and reduces your risk of over trading.
3. Only trade volatile stocks. If you are in the business of making money then your stock needs to have enough in her to move the required distance for the trade to be worth your time.

Practice Makes Perfect

If you want to be successful at anything in life it requires what? Exactly, it requires you to practice. If you haven't read the book [Outliers](#), I strongly recommend you do so. One of the key points from the book is the belief that it takes 10,000 hours to become a true master of any craft. So, I dare to say why would trading be any different? Why do so many

people fall victim to depositing money into a trading account only to start their venture prematurely. There are many people in the world that could have avoided financial ruin if they just paused, took a breath and slowly eased into their trading careers. If you are thinking about trading ask yourself the following:

1. Have I actually practiced my new trading strategy in a true market environment?
2. While the back testing graph shows I would have made money, was I able to reproduce the same results?
3. Do I spend more time watching T.V. or some other frivolous hobby more than I practice trading?
4. Do I have access to a [trading simulator](#) that I can use outside of market hours?
5. Have you practiced day trading for at least 500 hours?

If you have answered no to any of the above questions, you really need to rethink if day trading is the right business for you. Day trading has a weird way of weeding out those who are not built for this type of lifestyle. If you are looking for a way to make some additional income there are a number of other ways to make a little money on the side. However, if you are thinking of day trading this is more of a calling and less about the money. There will be a number of down days where you will question yourself and what it is your doing with your life and unless you are truly committed to the journey you will likely fail. So, now that you have read this monster of a post, let's turn the title of the article on itself. Do you feel that you know how to day trade and are you up for the challenge?