

The Reality Behind Day Trading – Keys to Success

Day Trading is one of those professions where either people love it or they hate it.

The reason many people gravitate towards the hate it end of the spectrum is due to the lack of understanding of how to successfully speculate in the markets. When it comes down to it, trading is just like any other brick and mortar business. You need capital to get started, sound money management principles and the discipline to weather tough cycles.

In this article, we will provide an overview of day trading and what it takes to get started in the “game”.

But, first take a look at the below infographic which provides the reality behind day trading and some key tips of how to be successful.

The Reality Behind Day Trading

Day Trading is the practice of speculation in securities, with frequent buying and selling of financial instruments (typically stocks)

Tips for successful day trading!



When you buy a share, you become one of the owners of the company

What people forget when they buy a stock is that they are now a part of this business and, just as in any business they will have to share both profits and losses.



The price of a share can vary in the short term

When the company issues a share, it has a face value. Once the stock is traded, its value either goes up or comes down



Be a long-term investor

Buying low and selling high is the best way to make money in the stock market. Buy shares in the bear market, when share prices have gone down.



Decide on the amount you can risk losing

Never forget the fact that anything that gives you higher returns also carries a significant amount of risk.



Beware of 'hot' tips

Avoid buying shares of unfamiliar and unknown companies. Stay away from 'hot tips' given by brokers – they usually turn cold by the time they reach you.



Invest in a top-performing diversified equity mutual fund

If you are apprehensive of the risks of the stock market, invest through a well-performing diversified equity mutual fund.

Mistakes and Losers



The most common MISTAKE traders make is entering a trade without a good plan.

70%
of day traders
lose money



Types of Traders



Day Trader

Trades the 5-15 Minutes chart. Tries to catch the market move of the day.



Scalper

Trades the Tick or 1 Minute chart. Tries to catch quick moves in the market.

Swing Trader

Trades the 1 Hour or 4 Hour chart. Also known as Trend trading.

Position Trader

Trades the Daily and Weekly charts. Takes a long term perspective.



Infographic provided by

www.tradingsim.com - Top Day Trading Simulator



Does Anyone Make Money Day Trading

So, after we discussed these useful tips above you probably ask yourself the following question: Does anyone make money day trading?

The answer to this question is “Yes!”

People really make money day trading. But this is not as easy as it may look like. As we said in the tips above, 70% of day traders lose money. This means that the other 30% of the people are really making money.

Now you probably ask yourself “How much money can you make day trading?” In theory your profit potential as a day trader is unlimited.

In reality, we know there is no easy money day trading in the markets.

Above you see the chart of Amazon, which covers the price action during the last two years. The AMZN security is another good example of a strongly bullish stock.

These two stocks have only been expanding during their existence as a financial asset. In this manner, a person who had bought such stock in the beginning would still be a gainer. Yes but we all know, that Facebook and Amazon would not be gainers forever. Thus, the profit potential created by these stocks would be played out at some point. Therefore, there are no unlimited winners in the long term.

Another important factor for the profit making in stock trading is the success rate of a trader. None of the traders is 100% right in his decisions. Therefore, there are always losing trades among the winning trades. When you ask yourself “How to become a profitable stock trader?” you should know that the answer is in making more money than you lose.

How to Become a Day Trader Online

I would say 99% of retail day traders are trading online. There maybe someone that makes the call to their brokers, I just haven't met any in the last 15 years.

Choose your Broker

The first thing you need to do is to find a reliable trading broker. The broker is the mediator you use to open your trades through. A good broker has low margin requirements, have tons of shares available for shorting and low commissions.

Platform Installation

Every online stock trading broker supplies their clients with a trading platform.

Some brokers require you to download external software, that will need to be installed on your desktop.

Other brokers simply push their platforms to clients via the web.

You simply type-in a web address in your browser and you can begin executing trades.

The most modern way to trade nowadays is via mobile trading platforms. This means you download the platform on your smart phone or tablet and you are ready to go!

After you get the platform I advise you to examine it very carefully. Make sure you understand the margin and leverage requirements of your broker.

Also, you can also practice some buy/sell orders with a demo account in order to make sure you know how it all works.

Deposit Funds

After you are convinced that everything is fine with the broker and their platform, you will need to deposit funds. You cannot make money without investing money, right?

Go to the website of your broker and follow the deposit instructions.

Most brokers will offer you a special offer for depositing funds.

They broker may give you \$20, \$50, or even \$100 of commission free trading in your account.

Just make sure you understand if your broker requires any minimum volume trading requirements or a certain minimum account balance.

Remember, if you are not ready to take on the risk of trading, please do not risk more money in hopes of capitalizing on some short-term bonus for new account holders.

Implement Analysis

Now that you have chosen your broker, you have the platform installed, and your funds deposited, it is time for some analysis.

First, I would advise you to build a portfolio of specific stocks. Choose a sector which you think you are good in: tech, banking, foods, etc.

Then pick up 15-20 stocks from the sector, which you believe you know in some way.

Next, make sure you understand the technical analysis tools in the platform of your broker. Find the support/resistance lines, trend lines, channels, and all the indicators provided. Make sure you know how to apply them to the chart.

Over time you will begin to understand and master this subset of stocks. Remember, it's better to be a master of something, versus a practitioner of everything.

How to Make Money Day Trading Online

To be a profitable trader, you need to have a trading strategy.

There are two crucial parameters necessary to calculate your future cash flows in stock trading. These are success rate and win-loss ratio.

Success Rate

The success rate indicates the percentage in which your strategy wins. If your strategy gives you 1 winning trade out of 5, this means you have a 20% success rate. But how can a 20% success rate be profitable?

You will learn this in our next point.

Win-Loss Ratio

The win-loss ratio in trading measures the amount you aim to win from a trade, compared to the amount you risk.

The amount you aim to win is represented by your minimum target in a trade. The amount you risk is determined by the position of your stop loss order. If the price moves quickly against you, you will lose a maximum equal to the distance between your entry point and the level of your stop loss order.

If your stop is positioned to handle 1% loss and your minimum target is 6%, this means you have 6:1 win-loss ratio. This is huge, but please remember that high win-loss ratio strategies

have a relatively low success rate.

If your 6:1 win-loss strategy has a 20% success rate, then in 20% of the cases you will gain 6. In each of the other cases (80%) you will lose 1.

Let's now calculate 50 imaginary trades based on this trading approach:

From 50 trades you will have only 10 winning (20%). In each of these 10 trades you will gain 6:

$$10 \times 6 = 60$$

In the other 40 trades you will be a loser. But your losses are limited to 1 by your stop loss order:

$$40 \times 1 = 40.$$

This means that from 50 trades a 6-1 Win-Loss strategy with 20% success rate will gain you 60 by losing 40.

Your net profit will then equal to $60 - 40 = 20$.

Got it?

Conclusion

1. You need three things to become a successfully speculator in the markets:
 1. Capital
 2. Money Management
 3. Discipline
2. 70% of the traders fail. 30% are really successful.
3. The most common mistake traders make is to jump in the market without a solid trading plan.
4. There are 4 types of traders:
 1. Scalpers
 2. Day Traders
 3. Swing Traders

4. Position Traders

5. How to become a day trader online:

1. Choose a broker.
2. Install a trading platform.
3. Deposit funds.
4. Implement analysis.
5. Open a trade.

6. There are two factors important for how to make money day trading online:

1. Success Rate
2. Win-Loss Ratio