INTRO TO TRADING

By Devin Koczwara

QWOP CAPITAL

TABLE OF CONTENTS

GETTING STARTED

Devin Koczwara
devin@qwopcapital.com

Identifying goals & what to expect

Statistics show that after 2 years give or take, only 10% of traders remain and are successful. What sets those 10% apart? PERSISTENCE. Here's the truth: you will fail at times, and you'll lose money. It's not all lambos and yacht talk. But, the trader that keep getting back up on their feet and refines their approach to the markets: more discipline, patience, and refined strategy (and EDGE! Will get into that later) will succeed.

So the question is, realistically, do you or will you have the time to dedicate towards trading and refining your process? Trading for consistent income or consistent "spending money" even, will take work and dedication.

If, with all that said, you are in … then let's get started.

SWING TRADING VS. DAY TRADING

There are two types of trading, each suiting different personalities for the better or worse.

Swing trading:

- A swing trader takes advantage of the longer term/timeframe trend and enters positions to hold for extended periods of time. This fashion of trading will suit best those who do not have the ability to, or the desire to have lots of screen time. Those choosing to swing trade must exhibit more patience than our next type of trader. Also, said person likely will show more trust in the market: they are comfortable riding through the shorter term swings up and down.

Day trading:

- The day trader takes advantage of volatility swings in the market on an intra-day basis in order to profit. The idea is, make your money for the day, and move on tomorrow for more opportunity. If day trading, you must accept you will not catch every opportunity or move in the market or ticker you are looking at. There is a demand to have more screen time, more observation, and more day to day dedication. However, the upside is potential for compounding daily gains, and protecting your capital when the ever-so-strong bull market takes a turn for the worse.

DOING BOTH : The best medium might be integrating a bit of both into your trading style. With a portion of your capital swing trade, and another portion day trade with. Some will lean heavier on either side as they develop their style.

So ask yourself: which suits you best? Both walks of the trading life will find value in this course.

GOALS

It's incredibly important to have goals, so that you have some sort of idea where you'd like to be in the future. Do you want to be a full time trader? Do you want to trade for fun and just understand markets better, for more fun side money? Write down, on paper, where you'd like to be in a year financially. Find the balance between the ambitious and the realistic. These goals can change with time, but they'll help give some direction for now.

Trading Psychology

Trading has as much to do with psychology as it does with analyzing market patterns, trade setups, etc.
If you are not in the right mindset to trade, you will not perform well.

<u>EXTERNAL STRESS</u>

If you have extreme/out of the ordinary external stress: relationships, work, school, life … it will bleed into trading. Don't fool yourself into thinking you can compartmentalize trading, your life's stress will catch up to you.

<u>LACK OF SLEEP</u>

Everybody has different sleep tolerances, but we all know our limits. Trading on a fatigued mind and weary eyes, will certainly not help as you face making decisions dictating your trades. GET YOUR SLEEP!

<u>REVENGE TRADING</u>

What's revenge trading? Let's look to Bob, to see what <u>NOT</u> to do.

Bob opens up his trading platform to meet his daily $$ goal on the day. Bob has had a winning streak for over a weak, without any red (down) days. But, today is different. The market shifts a bit. Bob enters a trade, and makes his first notable loss in over a week. A loss, but not a huge hit to the trading account.

Instead of taking a break and re-evaluating his mistakes, Bob thinks about his loss he just incurred and decides he wants to make it back up. He enters another trade, it goes poorly. His psyche starts to work against him and emotions run hot, he turns desperate desiring to get back up on the day. This next trade, instead of following his normal trade structure and rules, Bob enters even a larger position with more risk.

The trade AGAIN goes south, but this time Bob had more risk on the trade, and he desperately closes the position out and soon after observes his daily loss. Instead of a manageable loss, Bob now is down a significant amount on the day.

Don't be like BOB, if you incur a loss (totally normal, and it WILL happen) which affects your emotional state of mind… then STOP TRADING. Close down your trading platform and take a walk. Maybe even take a day off trading and cool off.

SELF DESTRUCTIVE BEHAVIOR

This is an interesting subject. It applies more to those who start out from little, and gain a lot. Before diving into my view on self destructive behavior, let's look at lottery ticket winners.

Seventy percent of lottery winners go broke. What? Why?
When you take a person who has a relatively finite view of money, living paycheck to paycheck, and allocate them with an obscene amount of money: how can you expect them to respect the money?
In response, many lottery ticket winners feel either guilt over what they don't believe belongs to them: they didn't go through a process of earning it.

In the same way, even though trading for a profit is WORK - and not given to you, there often is a feeling that you are NOT PRODUCING anything. You are merely extracting money from the market. This is a psychological wall you have to fight off and deal with before you can progress as a trader.

The money you make while trading, IS YOUR MONEY. Don't feel guilty.
If you feel like it isn't your money, you'll give it back to the market - I guarantee it.

Trading Slang

There's lots of slang thrown around among traders. Lets get through some before we move on. A few of these will be touched on in more detail later on.

LONG: A trade opened by BUYING a stock or coin (profits when asset goes UP)

SHORT: A trade opened by SELLING a stock or coin (profits when asset goes DOWN)

BULLISH: Refers to market in a notable/strong uptrend

BEARISH: Refers to a market in a notable/strong downtrend

LEVERAGE: Borrowing $$ from an exchange to trade with more than you own OR also used to short (sell) a stock you do not own

MARGIN CALL: A call from the exchange to deposit more funds to cover the loan (leverage) you took out. Failure to meet results in liquidation - the exchange sells off your asset and you can potentially lose everything.

PUMPING: Referring to a stock or coin increasing in value quickly

DUMPING: Referring to a stock or coin declining in value quickly

FADE: After a large move up or down, this is a slow reversal to the trend. EX: A big "pump" from $100 to $150, when the move tops out it potentially will FADE down for quite some time before resuming the upward momentum.

TICKER: The abbreviation for a stock or coin.

EXTENDED: Referring to a stock or coin having had either a very large move in either direction, and extremely far away from the mean (EX: TESLA is very extended to the upside, I will wait to buy when it reverts to the mean)

Supply and Demand

What dictates the cost of a stock or crypto at any given time? Is that price "right", or really what it should be evaluated at?

First off: the market is always right. Yes. The *price is right*.
There are multiple factors determining why the price is where it is, but the market does not lie.

The price of an asset is determined by supply and demand. There is a buyer, and there is a seller.
The price lies in equilibrium of both - in the middle.

DEMAND == Desire to use or buy said asset/product
SUPPLY == Availability/willingness to sell said asset/product

If SUPPLY outweighs DEMAND, price will go down.
If DEMAND outweighs SUPPLY, price will go up.

Despite all the things driving the market, supply and demand still dictates it all.

The Bid and the Ask

In the trading world, price is determined through supply and demand BY the means of the bid and the ask.
The bid and the ask are comprised of:

The BID == A buyer at X price with X quantity
The ASK == A seller at X price with X quantity

So we know where somebody wants to buy, and sell. But there is no action taken yet. In order for price to move, there needs to be an ACTIVE party: either buying the ask, or selling into the bid.

For example:
Let's say in a local market, JOHN is selling 10 apples for $1.00 each.
ALEX is buying 10 apples at a desired price of $0.90

On the ASK:
10 APPLES @ $1.00
On the BID:
10 APPLES @ $0.90

So, in order for any apples to be bought or sold SOMEBODY needs to take action. Either JOHN decides to sell 10 apples to ALEX for 90 cents each, or ALEX decides to buy 10 apples from JOHN for 1 dollar each.
OR: What if a third party enters, DAVE, and he decides to either buy or sell to JOHN or ALEX.

So: one can either be a stagnant participant in the market, a LIMIT ORDER, or an active participant, A MARKET ORDER.

LIMIT ORDER: A limit order, is an order at X price for X quantity, on the bid or the ask. It sits on the market until a market order is made to fill it. In the example above, JOHN has a limit sell on the ask. Alex has a limit buy on the bid.
MARKET ORDER: A market order, is an order saying GIVE ME IT NOW. Either - I WANT MY STOCK, or I WANT MY CASH. In the example above, the third party DAVE is a market order - he wants to buy or sell apples NOW.

Types of Trades

There are multiple ways to take advantage of the market. As a trader, you have the ability to profit no matter what direction the market moves.

TRADE LONG:

Going long, simply is a trade where you BUY LOW with a desire to SELL HIGHER.
Ex: Buying TSLA at $700 to sell at $800. You want the stock to move higher.
Profit: $100 per share

Max loss (assuming no exit plan) : Cost of trade to open ($700 per share)

TRADE SHORT:

To trade short, is to SELL HIGH (sell a stock you don't own) with a desire to BUY LOWER.
Ex: Short TSLA at $800 to buy back (close trade) at $700. You want the stock to move down.
Profit: $100 per share

Max loss (assuming no exit plan) : INFINITE (Stock potentially could move up forever and you have to buy stock back eventually) until you are margin called (lose your whole account)

TECHNICAL ANALYSIS

What is Technical Analysis?

Technical Analysis is a method to determine a probable outcome for the future of the market. By analyzing the past in how the market behaves and develops patterns, we are able to make an educated guess to aid our trading decisions.

It is NOT a crystal ball, by any means. Past results do not dictate future outcome. But, history certainly repeats itself, and can give us a statistical advantage in our trading.

There are dozens of methods to analyze the market. In this course I will highlight a few, while keeping things as simple as possible. In my experience, less is more.

Price Action

Price action is how a stock (or crypto coin - but for sake of brevity here I will use stock) moves over time plotted on a chart. We can take advantage of this action by observing important price levels and trends, and planning a trade around them.

Much of the following I learned from The Chart Guys (https://www.chartguys.com/). Dan, a key analyst in the group, highlights a really simple way to observe price action.

TREND ANALYSIS

Simply put, a stock at any given time is either moving UP, DOWN, or SIDEWAYS.

UPTREND: A stock's price action on the chart is moving up, with HIGHER HIGHS and HIGHER LOWS. I'll expand on that soon.

DOWNTREND: A stock's price action on the chart is moving down, with LOWER LOWS and LOWER HIGHS. Once again, I'll expand.

SIDEWAYS aka "Compression": A stock's price action on a chart is bouncing around sideways, tightening up - usually following a large move up or down.

NOTE: Trends are relative to the time frame you are on, for the chart. For example, the daily time frame could be in an uptrend while the hourly time frame is in a downtrend.

UPTRENDS

An uptrend, charted, is determined by the price making Higher Highs, and Higher Lows. See picture below.

To trade LONG, in an uptrend, your goal is to enter a trade on a pullback. Then place a stop loss below the last Higher Low (if unfamiliar with stop losses, it will be explained in detail in the DEFINING RISK section further below.)

DOWNTRENDS

A downtrend, charted, is determined by the price making Lower Lows, and Lower Highs. See picture below.

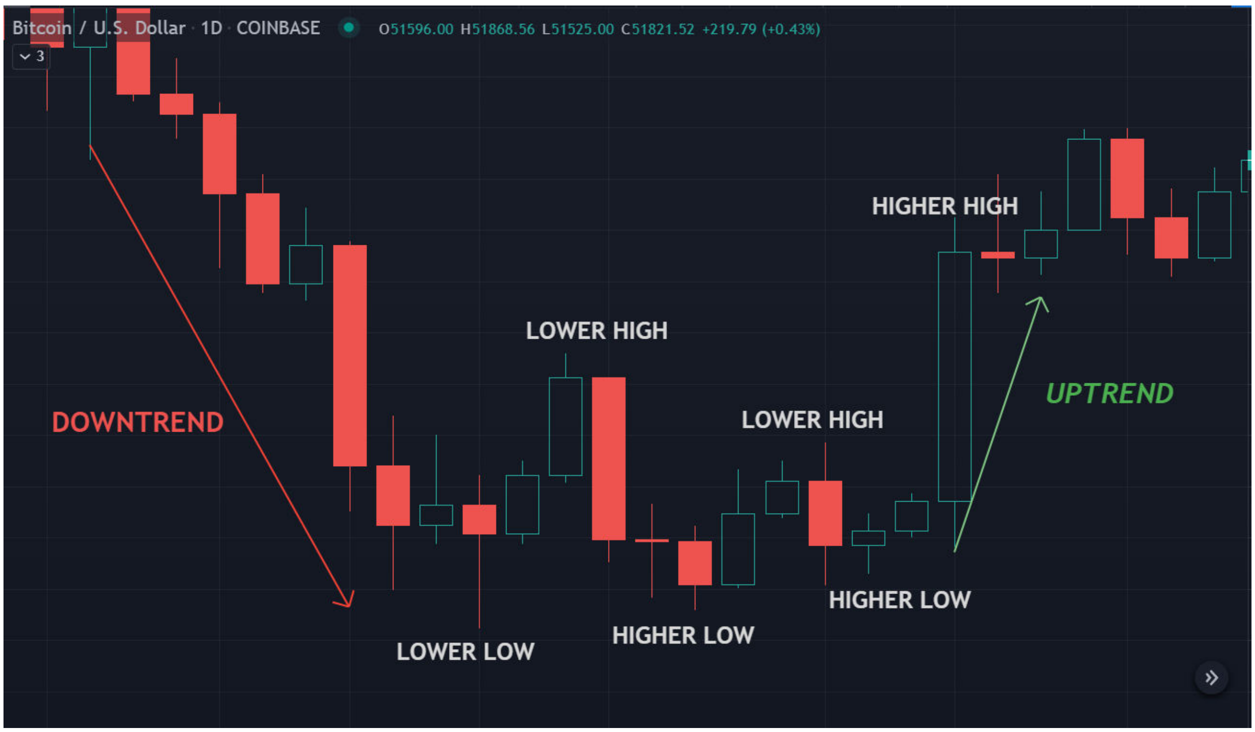
To trade SHORT, in a downtrend, your goal is to enter your trade on a bounce. Then place your stop loss above the last lower high, with hopes the price continues lower.

SIDEWAYS ACTION / COMPRESSION

Sideways price action [also known as pennants, or equilibriums] are determined by a tightening formation of higher lows and lower highs. This pattern often is followed by a large explosive move up or down, as shown below. Pictured below, there is a downtrend and soon after a tightening formation.

TREND CHANGES

Identifying a trend change is very important.



The trend changes bullish as the lower high is broken to the upside. What defined the downtrend, with Lower Highs and Lower Lows is no longer happening.

A potential LONG trade would be to buy a breakout of the last Lower High. Your stop loss would be placed below the last Higher Low.

SUPPORT & RESISTANCE

Identifying Support and Resistance, also referred to as S/R, is vital in technical analysis.

Support is a key (important) price level that has proved itself to bounce off of, and hold for the bulls [BULLISH traders]

Resistance is a key price level that has proved itself to reject upward momentum, and hold for the bears [BEARISH traders]

TREND LINES

Trend lines are lines drawn at a slope, connecting two or more points on the chart. They can be drawn for resistance, and also support.

TREND LINE SUPPORT:

Here, price sets a series of higher lows off the trend line in a tightening pattern. Once price breaks below, heavy selling takes place.

TREND LINE RESISTANCE:

Note that here, the third touch did not reject perfectly but no candle closed above the trendline. Trendlines are extremely subjective, in that some draw them touching the candle's wicks - and others from the candle closes.

The only thing that matters is you are being consistent in how you draw them, For example, only connect the first two points to candle wicks - or only connect them to candle bodies.

RISK MANAGEMENT

RISK to REWARD

Making a quick buck out of some trades is very different than a long term desire for profitability in the market. If you want to STAY IN THE GAME, you are going to need to get serious about risk management.

RISK is the potential loss to your portfolio in the market at any given time.

RISK MANAGEMENT therefore is the management and “capping” of that potential loss. To stay in the game, we need to limit our losses within our trades.

When entering a trade, it's important to have an acceptable **RISK** to **REWARD**.
Reward is the potential gain to your portfolio in the market at any given time.

For example:

Let's say *John* has a $10,000 trading account.
The most he is willing to lose in a trade is 2%, or $200.

When looking for a trade, John is likely to desire a potential RISK to REWARD ratio of at least 1:2 . This means he will risk $200 for the potential to make $400.

With a Risk to Reward of 1:2, John is able to lose **two out of three trades** and still be “breakeven”. One winning trade - $400 profit. Two losing trades - $400 loss.

Now of course the goal is to MAKE money. It's optimal to have a risk to reward of 1:3 in many scenarios, enabling you to lose two out of three trades and still come out ahead. By doing this, you give yourself a statistical advantage over time to make money. You WILL lose when trading. However, limiting the losses enables you to stay in the game to make more on the next trade.

NOTE: Above is an example of a FIXED RISK trade. Risk $200 to make $400. However, there also are trades with unlimited risk however extremely high odds of working in your favor. Some examples would be option selling, or oversold bounces (I plan on creating an oversold bounce course or PDF in the future.)

STOP LOSSES!

A stop loss is your gateway to long term success and mitigating loss.

What's a stop loss?

It's a **market order that triggers at a specific price, to exit a trade**. Every [decent] exchange should give you the ability to place a stop loss order.

EXAMPLE OF A TRADE WITH A STOP LOSS:

Pictured above, a trader could place a LONG trade buying stock above 319.8 support. The trader would then place a STOP LOSS below 319.8 support.

FINAL WORDS

If you've read up till here, well done!

There's so much information and detail to absorb when pursuing the trading life. This PDF is in no way exhaustive. However, I hope it provides a helpful starting point to kickstart your brain into pursuing more detail and information.

Leverage is [usually] not your friend

It's very common for a new trader to be enticed by leverage, and the ability to make quicker gains. What is easy to dismiss is the risk factor, and how often liquidations and margin calls will occur.

Yes, it is difficult to grow a small trading account at the beginning. But relying on leverage can build bad habits for when you continue to progress and build up a larger account.

Now, can you utilize leverage to still maintain acceptable risk? Yes! But it's not common, in my experience.

Match your aggressiveness to the market

As traders, we should be taking more and more trades when in favorable market conditions. However when it is sideways, choppy, or not performing in a way that our trading style can take advantage of - then SLOW DOWN.

There is no reason to always be in a trade. **CASH IS A POSITION.**

Develop your own style

Over time, you should slowly fall away from following other people's trades and ideas and begin to form your own style and methods. Trusting your own judgement and having confidence in your own trades is extremely important. I can't count how many times I've closed trades after careful planning - all because somebody I trusted wasn't down with it. Of course, soon after to my dismay the trades often performed exactly as planned.

Confidence! But not arrogance, is key.