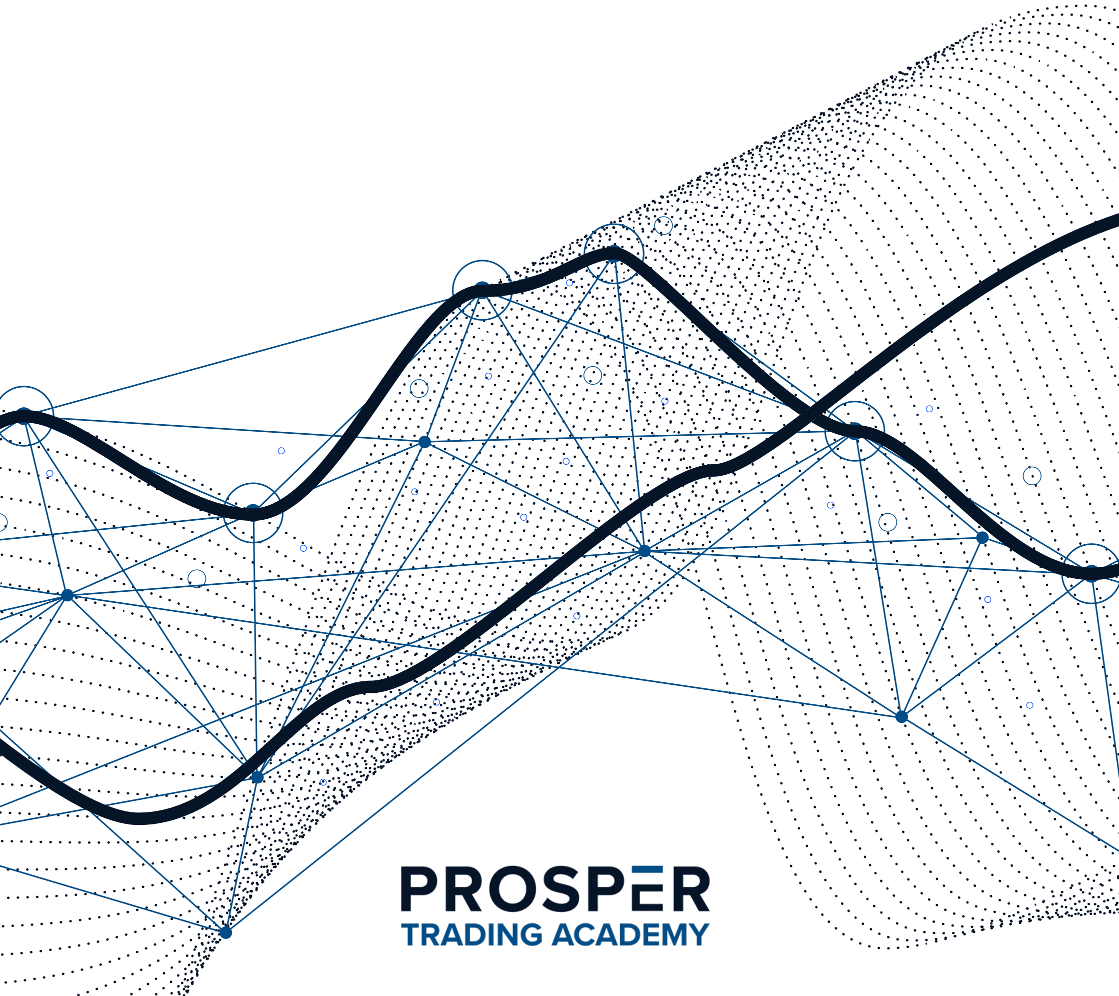
Introduction to Trend Trading

A free stocks trend trading guide by Prosper Trading Academy



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TRADING ACADEMY

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A Stocks Trend Trading Guide

by

Prosper Trading Academy
&
Dan O'Brien

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About the Author

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Dan O'Brien has had a long, experienced career as a trader, a broker and an educator. He has a tremendous track record calling trading signals in the E-Mini S&P 500. Dan has developed all the tools with his over 20 years' experience in the business - top-notch technical acumen, an in-depth understanding of market fundamentals, a disciplined approach to trading and a patientstyle of teaching.

Introduction to Trend Trading

Most people with money in the markets today participate via "buy something...anything...and forget it." The average Joe tells himself, "I'm a long-term investor. Buy and hold is for me." Although that is fine for a portion of his overall investment, he fails to realize that there is more to investing, like day trading or swing trading. But for someone who is already a very long term investor and does not have the time to sit in front of a computer screen all day, yet can't stand the idea riding out down moves, perhaps trend trading can really increase his overall returns.

From bankers to private trading firms to the average Joe, people actively participate in the markets everyday it is open. Whether one is a day trader, a swing trader, or long term investor, speculators provide the necessary liquidity to create an actual market. These traders attempt to profit from price changes due to earnings reports, supply and demand changes, or certain news that they believe will cause fluctuations in a stock price.

So what is trend trading and how is it different from day trading and long term investing? Let's start with the easy one - long term investing. Almost all long term investors are those that just buy and hold. No matter what happens, they're not moving a muscle to help themselves, even when the market is falling. However, there are some firms, usually hedge funds or RIAs, that short stocks for

long periods of time, but they are rare indeed. For example, investor Jim Chanos gained fame when he predicted that Enron would file bankruptcy long before it happened and that his firm, Kynikos, was short the stock. He held it for the long term; all the way to the bottom price of zero.

On the other end of the spectrum are day traders, and they are looking for brief opportunities every day to either buy or sell in multiple stocks. The day trader will be out of all of his positions before the close of the market the same day. Day traders have special rules set up by government regulators. From FINRA, we read the following:

> *The rules adopt the term "pattern day trader," which includes any margin customer that day trades (buys then sells or sells short then buys the same security on the same day) four or more times in five business days, provided the number of day trades are more than six percent of the customer's total trading activity for that same five-day period. Under the rules, a pattern day trader must maintain minimum equity of $25,000 on any day that the customer day trades. The required minimum equity must be in the account prior to any day-trading activities. If the account falls below the $25,000 requirement, the pattern day trader will not be permitted to day trade until the account is restored to the $25,000 minimum equity level.*
>
> *The rules permit a pattern day trader to trade up to four times the maintenance margin excess in the account as of the close of business of the previous day. If a pattern day trader exceeds the day-trading buying power limitation, the firm will issue a day-trading margin call to the pattern day trader.*

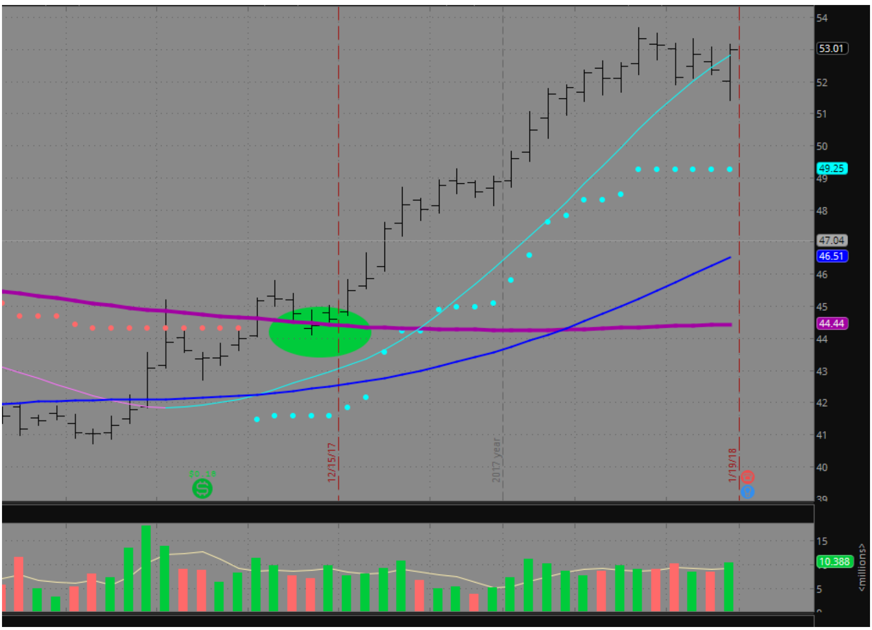
So if someone does not want to deal with the rules laid out above, but also wants to be more active than a buy and hold investor, swing trading may be right for them. Simply put, swing trading is a medium-term strategy that traders use to capitalize on the price "swings" of stocks, usually over the period of a few days to perhaps a few weeks. This tends to work for individuals and not institutional traders because the latter are making very large bets on the price of the stock that may take days to complete, and are meant to be held for very long periods of time. This activity, however, is often what creates the swing trading opportunities for the individual trader.

At Prosper Trading Academy, we believe that the best companies to trend trade should have high daily trade volume. It would be a good idea to only focus on those stocks that trade at least a minimum of one million shares per day, while others may decide to use a rule of several multiples of that. Trend traders focus on these stocks because their prices often move in one direction for weeks in a row. What's more, since the volume is high, they will have no problem filling their orders. Some stocks that have these characteristics are Apple, Amazon, and Facebook to name just a few.

Prosper Trading's students use a systematic approach to the markets; they are not looking at a company's balance sheet or next quarter's sales projections, for example. Our trend traders are technical traders, which means that they make their decisions by what they see and use on the charts: trend lines, moving averages, pattern recognition, volume, etc.

- *Trend traders do not care about fundamentals.*
- *Trend traders don't care much for analyst projections.*
- *Trend traders don't even care what the company sells. They're just looking for good movement on a regular basis.*

Below is a chart of Halliburton, symbol HAL. Here is an example of a chart based potential trade. The technical information shows a few moving averages that are bullishly sloping up, a trailing stop program that is bullishly supporting the market, and high daily volume. The green oval is where a



trend trader may look to initiate a long positions.

You will notice that there is no red oval to signify an exit price. After more than a month of a strong rally, there's no reason to get out. This is a trend, indeed.

During this same trend, day traders and swing traders will also be buying. Day traders may be biased long multiples times per day, however, losers are inevitable. Trend traders want to avoid the high cost of commissions plus losing day trades and just sit through a long winner while the profit adds up. Swing traders will buy in this move as well. But does every swing trader have the discipline to buy again after he exits with a 5-day winner? If not, then he misses the second leg of the rally. Trend traders want to avoid both scenarios.

Although trend traders are in positions for long periods of time, they are never "always long," therefore they have the ability to identify weakness in a sector or specific stock and actually profit as it falls. Trend traders take advantage of the weakness by shorting the stock in the belief that it can be bought later at a lower price.

The chart above is also Halliburton. This stock was so weak in early 2017 that a buy and hold investor agonized with the position for more than 6 months as it plummeted a stunning 35%. Trend traders, however, would not be long. Since the market is dropping, a trend trader would be short and profiting during the -35% decline.

Another important aspect for any trend trader should be risk management and position sizing. At Prosper Trading Academy, however, we demand it. Why? If you do not know exactly what size you should put on and where you will exit if you are wrong, then you are doomed to failure. Like all techniques, trend trading will not always yield perfect entries and exits, so you must be prepared for losses.

Using Prosper Trading's scientific position sizing method, you will know the exact amount of shares that should be used and the exact stop-loss level that will be used. There will be NO guessing!

Is trend trading right for you? At Prosper Trading Academy we encourage everyone to find their niche environment. If you can not sit at the computer screen all day for day trading, or do not possess the skill for swing trading, perhaps trend trading is for you. You may think that swing trading is the answer and perhaps it is, but that takes discipline too - discipline to exit positions before the adverse price action takes the market in the other direction. Can you do that or would you rather hold out for more cash?

Ultimately you must make that decision, but trend trading may be a great place to start and all of the pro's at Prosper Trading Academy will do everything to help you make the right choice.

To learn more about the swing trading stocks and other markets like penny stocks, cannabis, and cryptocurrencies email us now:

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