The Manual that reveal

& Discover all the

Secrets of Trading!

Contents

1. Introduction – What Does it Take to Be a Trader?

It is very difficult to learn to trade on your own. That is the reason you should learn how to trade from someone who is trading daily and makes his living out of it.

Trading requires strong nerves. In order to trade, you should have the understanding that the market is very fluctuating. That is why a person with a weak heart should avoid trading independently.

It is very important to remember that trading must be done with great concentration and with a clear mind.

One should assume, that every beginning trader, will lose money in the first few months and so in these first months, the trading should be done with a demo software (trading software that enables trading with virtual money). These softwares are available for free.

As soon as you set the profit and loss goals, the invested equity (investment fund) for learning how to trade can be set. For example, if the learning time is six months, the daily loss goal is 50$ and there are 20 trading days a month, then for one month 1000$ will be needed, in the worst case scenario.

You should have a supportive environment to develop your talent. You can use some helpful tools, such as joining a trading room, or trade from your own home and connect, via the Internet, to other successful traders that can help you understand what the market status is, at any given time.

Another important thing is having a comfortable work environment. Before you start trading, you should set the infrastructure (a software which displays online stock market data, online trading systems or a dedicated trading room of a well-known stock investor or company).

You should adapt a constant habit of monitoring general developments and daily tracking 2-3 financial newspapers (or the financial sections of popular newspapers), which will shed light on what are the current statuses of different aspects, such as financial, political, diplomatic and security, both locally and internationally.

A good idea is to also monitor dedicated websites. The internet enables you access to almost every tool a trader might wish for, both for local and international markets (learning, trading, participating and

expressing yourself in forums and chat conversations).
The official stock exchange site should be monitored as well, for relevant continuous updates.
You should formulate and adopt a professional concept. You will need to decide whether you are a fundamental trader or a technical trader.
A fundamental trader will base his knowledge and trades on researches and professional reading material, and know that the structure of the share and bonds portfolio should be assessed over time, since this yield will be achieved after a waiting and vesting period.
However, the technical trader should learn the technical system and accordingly, trade in limited and short intervals.

2. Tips for the Beginning Trader

- Start trading "small" – Trading in the stock exchange, in general and day trading in particular, are one of the most exciting and rewarding (or fining) activities out there. There is no other profession where your skills, or lack of them, are reflected so powerfully and immediately in your pocket. So, if you are a beginner, trade in small quantities. Even minimal.

- Manage your profit and loss – If you have produced losses, do not take it lightly. Treat it as if you lost a fortune and try to understand why you lost (take comfort in the fact that the actual tuition paid was inexpensive). If you earn systematically and for a long period of time - only then, you can consider increasing the trading quantities.

- Find a way it will work for you – The work nature of different day traders do not have to be similar. There are many traders whose activities are quite different from each other, but they all have very good profits. There are traders who react to every fluctuation and change in the market, while others “read” the main trend of the market or of a specific security and take a position, while ignoring small fluctuations. There are endless approaches and methods, choose the one which is the best one for you.

- Finding your specific way, by experiencing – You should try some trading methods and find the one that works best for you.

- Accept your mistakes – You should learn from your mistakes and more importantly, you should accept the fact that losses are part of the game.
  A good day trader can make a very decent living. Therefore, it is only reasonable that the profession is not an easy one. Learning takes time, skills and experience, like any other sophisticated profession.

- Strive to work emotion free – Traders are sometimes affected by irrational feelings. Feelings like "the market is against me" and "they are failing me on purpose”, are feelings that prevent the trader from the ability to work in a dispassionate way. Emotions interfere with seeing the bigger picture and the realistic facts, and cause the trader to fail where he acts on his emotions and not on reality.

- Be disciplined – Make sure you do not deviate from the path you chose to work with. This is true, even if you think you have seen the "deal of your life". Traders have a tendency to give in temptations that the market throws at them all the time. These temptations divert them from their self-defined way of work. This kind of behavior often leads to losses.
  Persistence and discipline in the stock exchange world will help you cope in stress situations and refuse tricky temptations.

- Do not argue with the market – Do not dare ever think that you are right and the market is wrong. Such delusional thinking is a sure way to lose your money.
  Remember, your gain or loss are the result, rather than a cause.
  If you trade a share on the information that you know is supposed to behave in a certain way but the actual behavior is quite different, consider the possibility that there is relevant information that is unknown to you.

- Profit and loss are different – Do not set "2% loss or gain, and I'm out". This way of work will probably cause you to lose in the long run. Therefore, set the profit percentage, as well as the loss percentage, in advance.

- All rules are irrelevant – Ultimately, the ability to earn over time in day trading, depends primarily on the nature of the daily trader. There are those that follow the rules, but the ability to deviate from the rules at the right time in the changing market is what makes them good day traders. The ability to respond to changes in real time, is the true ability the daily trader should have. Every aspect of this profession is based on the fact that there are continuous changes: the prices, the players, geopolitical changes and personal changes. These constant changes enable the day trader to work. These changes are also the reason this is not a profession for those who like stability. If you are looking for a stable market, you should invest in a short term deposit.

3. What Is Day Trading?

Day trading is now one of the hottest terms in the stock exchange world. The advantage of working from home with a computer seems attractive to many people who decide to explore this option and get into day trading. It is also considered to be one of the most difficult and challenging fields in the stock exchange world. Only a small part of the traders are successful and even trade as their source of livelihood.

Day trading is actually trading regularly in the stock exchange, where the main principle is simple and straightforward - all trades, i.e., buying and selling of shares, are done during one trading day and the trade is done before the end of the trading day. The kind of shares which are traded by day traders are very diverse and might include common shares, options, forex, etc...

Since day trading requires immediate actions (sometimes even a matter of seconds), only stock exchanges that offer on-line computerized interface allow day trading. That is the reason most people traders use the American stock exchange which allows it or they trade CFD.

4. a Practical Day Trading Guide

Now, after you understand what it means to day trade, we can start the practical part of the manual, where you will learn how to professionally day trade on your own.

Many people choose to study how to trade by taking a course offered by colleges or other private organizations, but there are also those who are seeking to learn via the internet, and so we decided to provide you with the following excellent articles which we have gathered from the Internet.
These articles can help you understand the best day trading strategies, learn in which markets you should trade and get some more tips and recommendations.

4.1. General Concepts

- Long – The trader believes that the price of this security is going up. The trader buys the security and hopes to sell it at a higher price.
  In any case, the trader places a stop loss order, which is setting a selling point for the security, at a lower price.
  A long positioned trader is called: "Bullish".

- Short – The trader believes that the price of the security is going down. The trader sells the security and hopes to buy it at a lower price.
  In any case, the trader places a stop loss order, which is setting a buying point for the security, at a higher price.
  A short positioned trader is called "Bearish".

- Bid – Ask for buying.

- Offer – An offer to sell.

- Limit Order – An execution order in which we set a buy or sell only at a specific price.
- Market Order – Order to immediately buy or sell, according to the current market price.
- Spread - The gap between buyers and sellers price.
- Range – The range of a given share price on a given day (the interval between the daily high and the daily low).

4.2. Opening a Trading Account

As mentioned above, in order to be a day trader, you must have a trading account.
There are many web advertisements of investments houses that offer trading services. As is the case in almost every other field, in trading, bargaining over the price may significantly reduce trading fees that may reach, on a monthly calculation, to very high amounts. These high amounts might hurt your yield, especially if you are day trading, since it requires many executions of buying and selling, and for a short period of time.

We, at startrading, created a collaboration with a CFD trading software, which is one of the best international trading softwares available. Using the startrading exclusive link, you can get great account conditions. You will also get a demo software, which will allow you to indefinitely trade with virtual money. The demo can help you “learn the rules” and experience all the different instruments available (shares, contracts and currencies).
Once you open your account, you will also be able to trade via the software.

4.3. Stock Exchange Tracking Data Software

As a day trader who wishes to trade online, you will need to keep track of different and diverse data, which will have different constellations such as graphs that enables you to technically analyze the data of local and global stock exchange markets.

The actual trading softwares might not allow you to view charts, graphs and other important data you will need as a day trader, and that is why you need additional softwares which will allow you to access this data quickly and easily.

The software we suggested before, will also allow you to monitor and analyze the data of the securities you trade.

4.4. Trading Psychology

Day trading in the stock exchange is full of risks and challenges. You will occasionally need to see yourself repeatedly losing and still, you will have to stick to your trading system, which you concluded is profitable over time. Also, in day trading, you might see a big profit becoming a small one and even a loss. Still, you will have to stick to your trading system. Strictly following your trading system is a hard thing to do, but it is one of the cornerstones of day trading. It might take years of experience to reach the required trading level and to master the trading discipline of sticking to a specific trading system. There are quite a few traders who will not get to that level, even after many years of trading.

4.5. Day Trading Preconditions

- Market knowledge and familiarity with the security – As is the case in every field of expertise, you should be thoroughly familiar with all aspects, to be a true professional. In day trading, it might be even more important, since the formula is very simple and straightforward - the more professional you are, the more money you make. That is the reason we encourage you to thoroughly be familiar with the all the types of securities and indices you choose to trade. Whether you trade contracts, shares, or any other security or index, please understand that every different index and security has a different behavior which must be taken into account when you trade it.
  As mentioned above, in order to day trade professionally, you should use a trading simulator. This, will help you know the behavior of the different securities and indices in the Israeli stock exchange, tuition free.

- A trading System – As mentioned before, you have to trade with a specific trading system, which you have tested over time and determined that it achieves a positive yield over time. You will persistently need to refine and develop the system, to achieve the highest possible positive yields. The most important rule, especially in day trading, is to stick to your trading system (after you have examined it over time and found it profitable), even when it does not give you the wanted outcome. When you profit, and even when you lose, you should not let your emotions control you and intervene with your trading system!

  Some of the tools you can use to improve and develop your trading system (trading algorithm) can be found on the internet. The internet itself is a powerful tool to gather information from. For example, you can be a member of the Capital Market forum, whose members include more than a few traders who are day trading. You can consult and learn from them quite a bit and advance your trading system and yourself as a day trader.

- Profit is flexible, Loss is limited – As a day trader, you must understand that you will not be able to profit on a daily basis, and when you do profit the sum will be different each time.
  Day trading is the same as owning a business, so there will be days when you will have no customers so you worked for nothing, which is like losing in day trading. On other days, you will have customers, but their number will change daily and so will the daily turnover, which is like having a

different profit every day in day trading. As you would not kick out customers from your business, you will not refuse profit in day trading. When you have a profit, you will try to profit as much as you can, by properly managing your risks. However, when you are losing, you must execute a firm stop loss and do not let a loss be any bigger than you decided it will be, as part of your predefined trading system.

We want to remind you again that day trading is one of the most dangerous trading methods available. We advise you to avoid starting it without learning and practicing your trading system.
Even after you are already trading, please be careful and make sure you are practicing all the suggestions mentioned above. If you persist it, you can earn quite a lot if money, in a short time.

4.6. CFD

Earlier, we briefly mentioned CFD. We will now elaborate on this financial instrument.

4.6.1. Introduction

CFD (Contracts for Difference) is a new financial instrument. It was formed in the late 90's and its initial goal was to constitute an additional instrument for portfolio managers, nostro traders and hedge fund managers so they could add it to vary their portfolio.
It is now widely used by investors who discovered its benefits. It seems like the CFD contracts trading volume is increasing daily and is now 50% of the daily turnover in the American stock exchange.
The fact that it is a sexy and easy instrument with high trading volumes, makes it the next big thing in the global investing world.

CFD is also called speculated trading, since while buying a share or index means buying a tangible asset, trading CFD means wishing for changes in the price of an asset, without actually owning it.

4.6.2. Advantages of CFD

- Leverage – CFD trading, unlike trading with shares or exchange traded funds, enables trading with leverage. CFD can be leveraged up to 200 times, while the trader needs to put up a collateral only for half a percent of the contract price.
  The advantage is simple: a 1% increase in the underlying price will result in an increase of 200% in the contract value. An investor does not need to wait longer for major changes to have high profits.

  It is very important to note that high leverage has its risks, so that if the market will go against your position, you will have to pay for it, and the cost is high.

- Short Sale – Another advantage in CFD trading is the ability to sell short. Since the assets are actually indices or shares, the investor can sell the contract without having to hold the actual asset, so according to the investor's expectations of the descending market, he can then sell the contract (short) and enjoy profits while the market is descending.

- Expiration – Unlike trading options and future contracts, CFD does not have an expiration date. This means you can hold shares or indices for long periods of time.

- Dividend – An interesting and unique aspect of CFD is the dividend. A long position in CFD entitles the investor to dividends on the distribution day. Accordingly, a short position in CFD obligates the investor to pay for the dividends.

- Margin – CFD is traded on margins. A margin is the minimum amount that must be deposited by the trader as collateral, to guarantee the existence of the contract. This way a trader can leverage his investment.

- Commissions – Unlike futures contracts which are traded on stock exchanges around the world, CFD trading is done via a market maker, and so the only commission is the difference between the buying and selling rate. As a trader, this is a very important advantage.

4.6.3. a CFD Transaction Example

A trader wishes to purchase 1,000 shares of MCD (share symbol). Share price is $27. Instead of buying the shares, which will cost $27,000, the trader can buy the MCD CFD, using only $2,700. A $5 increase in the market price will result in a profit of $1,350. In other words, the trader enjoys an increase in the actual share price as if he was actually held it.

4.6.4. CFD Risks and General Information

When buying CFD, as is the case of trading standard shares, the execution command is actually being sent to the stock exchange.
This might explain why CFD is 50% of the overall shares volume in the American market.

There are some more values you will need to know before you will open a CFD trading account:

- Commissions – When trading with shares, we usually pay a certain percentage of the transaction or some pre-defined commission per share. However, when buying CFD we will pay the difference between supply and demand of that same security. That difference is determined by the security's parameters, standard deviation and the company's value. It is also important to note that the difference varies from one security to another. These costs make it difficult to trade CFD for those daily traders in the American stock market, but is the perfect solution for the swing traders, who hold the paper for a maximum of one week.

- Leverage commissions and interests – CFD brokers give their customers the ability to leverage. Do you think it is a free service? Don't make us laugh! Those brokers who are begging us to use their leverage or credit, will not do it at no cost. It is customary to pay interest by the transaction size and the holding period. Although it is only a matter of a few dollars, for a long period of time, that same interest can be the difference between a profitable and a losing trade.

- Leverage again – Good traders who have low self-discipline have a very low chance to succeed in CFD trading. That same leverage, while it sometimes can hug you, can also hit you hard when you are wrong. A good trader must know how to use the stop loss command and be disciplined about it.

4.7. Technical Analysis Concepts

- Resistance level – A resistance level is a price level above the current share price, where the stock price is expected to shortly stop below it.
  As a resistance level, a price can be used as an historical peak, last peak, a downward trend line (connecting the peak points of the downward trend) and more.

  When the resistance level breakout on an upward trend, there is a good chance that it will become a support level.

  When the level of resistance is reached, the number of sellers increases and if the buyers are "stronger", then it is very likely that the upward trend will continue. Market signals resulting from a resistance breakout are very important and reliable, but you should always check if the breakout occurs with high trading volumes.

  You should work with shares which you found are about to reach resistance or support levels. If a breakout occurs - trade with it, at that same direction.

- Support level - Support level is a price level below the current share price, where the stock price is expected to shortly stop above it.
  As a trader, you can consider the level of support as the point where when the share price is above it, you might want to hold the share. Buying might be a good idea for two different reasons:
  1. The support level is a potential point for a trend reversal, meaning that a downward trend might now become an upward trend.

2. When a support level has a breakout, you can exit the position with minimal damage, if the buying ended up being the wrong position.
   The difference between the buying price above the support level and the price at the level itself, is the technical risk of the position.

   When the support level breakout in a downward trend, there is a good chance that it will become a resistance level.

   In some cases, you might experience “stops suction" or “running the stops”, where it is known that a specific support level exists and when the price is below that level, all the automatic positions exits (stop losses) will be taken into action. In these cases all the “weak hands” will be out and after some time, the price will go back above the support level. That is why it is important to pay attention to the trading volumes when analyzing a support level breakout.

- Support and resistance lines – Support line/upward trend - a straight line stretching from left to right and the stretch is below the lowest point of the trend.

  The usage of a support line:
  1. Buying – Making a buy near the line. The line can assist to predict the end of a correction and the continuance of an upward trend.
  2. Selling – When the line has a breakout in a downward trend, there should be an immediate elimination of the position.

  The trend line must be tailored and be dynamic to prices. You should change and re-draw the line, by considering the new levels which are created in the market.
  A support line which has a breakout in a downward trend, will become a resistance line.
  The longer a trend line and the more points it has, the clearer the line gets.

- Breakout – It is important to understand that a trend line breakout (upward or downward) is not an immediate and automatic signal. First, you should make sure that the breakout is real. A real breakout means that the whole daily column will be below or above the line (the lowest, highest and closing prices of that same day). Alternatively, you can wait a few days and check if the breakout wasn’t random and that the market does not go back up/down and eliminates the breakout.

A trend line is only a signal. The trend line is not an exclusive tool that can be fully relied upon and it should be combined with another signals.

- Gap – The price difference between a given share price on a specific day and the previous trading day. When using the technical analysis, the gap is also considered as a support or resistance point. The reason for that being that when a gap occurs, there is a price range where there were no transactions, so traders who wanted to buy or sell at these prices, were unable to do so.
    - Ascending Gap – Occurs when the opening price is higher than the daily highest price of the previous trading day. If the price later drops back to the price gap, all the traders who did not succeed to buy on the gap occurrence day, can now do it and so the gap will now be used as support.
    - Descending Gap – Occurs when the opening price is lower than the daily lowest price of the previous trading day. If the price later rises back to the price gap, all the traders who did not succeed to sell on the gap occurrence day, can now do it and so the gap will now be used as resistance.

- Moving average - Moving average is the most famous technical tool, referring to the daily average closing price, with the average calculated separately each day.
  A buying signal is obtained when the market/share is crossing the moving average and is now above it. When the opposite occurs, a selling signal is received. The higher the number of candles in the moving average, the longer the trading period it refers to. You should check which moving average fits each share individually, since it varies from one share to another.

- The overlap index - MACD divergence – This popular oscillator uses two moving averages to identify the momentum of a trend, by subtracting the longer moving average from the shorter moving average. The line obtained moves above and below the zero point with no upper or lower boundaries.
  The most common MACD formula is the difference between two exponential moving averages - those of the 26th day and the 12th day. You can change the values of the moving averages in the oscillator, so they will fit faster or slower shares.
  A buying signal is given when the short average crosses above the long average.
  A selling signal is given when the short average crosses below the long average.

- Patterns
  - Double top – A double top is a highly reliable reversal pattern that indicates a trend reversal from an upward trend to a downward trend. After a price increase, there will be a short realization, but after some short period of time more buyers will join and increase the price back to the previous peak. If the price fails to break the previous peak, a "double top" will be created, where the price will start to decrease. If it decreases below the low point of the previous realization, it is expected that the price will keep decreasing to the left edge of the M shape that was created.

    Comments: A triple ceiling might occur if in the second price decrement, the price stops above the previous low peak and goes back to the high peak. In this case, if the high peak is not breaking and the price decreases below the two previous lows, there is a very high probability that the pattern will act as expected and that a downward trend will start.

    MACD – Usually, in cases of a double top, two tops will be produced in the MACD oscillator, which will be equivalent to both occurrences where the price was in the peak area.
    If the second top is lower than the first top, then you can consider it as another negative signal, which will enhances the reliability of the trend reversal from an upward to a downward trend (also called a "bearish divergence").

  - Double bottom – A double bottom is a highly reliable reversal pattern that indicates a trend reversal from a downward trend to an upward trend. After a downward trend, the price stabilizes itself at a certain price range and then will have another small increase, which will stop after a short period of time and then will decrease back to the previous stabilized area. This is how a double button will occur. After another period of time, there will be another increase in the price which, if goes above the previous small increase, will become a trend reversal and the price is expected to increase above the left edge of the W shape that was created.

    Comments: A triple bottom might occur if in the second price increment, after the stabilization, the price will still not increase above the previous small increment peak, and will go back to the stabilization price range. In this case, if on the third time the price will increase above the two previous tops with high volumes, then there is a very high probability that the pattern will act as expected, and that an upward trend will start.

MACD – Usually, in cases of a double bottom, two bottoms will be produced in the MACD oscillator. If the oscillator shows that the second bottom is lower than the first one, it can be considered as a strong positive signal (also called a "bullish divergence").

- Bollinger bands - Bollinger Bands refer to the standard deviations of the closing prices and the average of standard deviations. It is based on the Gaussian distribution and on the fact that statistical studies have shown that at 95% of the times, share prices will remain at two deviation units from the moving average, so that if the share price increase above two average deviation units, it will have a tendency to go back to its average. The aim is to determine whether the prices are too high or too low, on a relative basis. This can give an estimation of the possible end of an upward or downward trend. After the bands shrink (meaning that the share does not move), when a movement occurs and the price starts to “slip” into one of the bands, it is likely that the trend will continue in this direction, until the price will “leave” the band.

5. Summary

We believe that although day trading is not an easy field to succeed in, if you set your mind to it, learn hard, find a good teacher, be careful, practice, discipline yourself, implement the recommendations and keep improving, you will be able to have good profits.

We wish you good luck and prosperity.