Daytrading Basket Stocks

The Undergroundtrader.com Way
Why Most Daytraders Fail

• Lack of FOCUS
• Lack of Discipline
• Lack of Methods
Why Basket Stocks

• In order to make a CONSISTENT living as a daytrader, one must have a CONSISTENT vehicle to generate PROFITS
• The Dart Throwing Momentum Mania days are OVER, low man on the totem pole loses
• Failure to know the CONTEXT of your stock makes you the LOW MAN
What Makes the Markets Move

- News is a LAGGARD indicator
- S/P 500 Futures vs. S/P 500 Index Arbitrage
- Program Trading Leap Frog Effect
- Institutional Activity
- Sectors Move Together From Tier 1 on Down
Real Daytrading

• Profiting from Intraday Price Oscillations
• Scalping
• Swing Trading
• “A Skilled Fighter Puts Himself Into A Position Where Defeat Is Impossible, Yet Never Misses The Opportunity To Defeat The Enemy”  Sun Tzu
• Cash is King
Noodles = Nasdaq 100 Futures
Nasdaq Level 2 and TOS
(cranks/crosslocks)
Nasdaq Level 2

• “All Warfare is about Deception. Hence, when able to attack, we must seem unable; when using our forces; we must seem inactive; when we are near, we must make the enemy believe we are far away; when far away, we must make him believe we are near.... If your opponent is choleric temper, seek to IRRITATE him. Pretend to be Weak, That he may grow ARROGANT.” Sun Tzu

• Cranks/Crosslocks
• Non refresh size Market Makers or ECNs
• Ax Market Maker
• Blocks on Time of Sales
1 Minute Stochastic Chart
(Buy and Short Triggers)
3 Minute Moving Averages Chart
(Buy and Sell Signals)
The Complete Setup
Watch The Synergies

- When 1 minute noodles rise
- 1 minute stochastics rise
- 3 minute noodles rise
- Tier 1 Stocks Rise
- Nasdaq Level 2 upticks
- If Rises are Strong Enough, 3 min moving average chart 5 period resistance breakouts
Ideal BUY Signal Premises For Oscillation Market

- 1 Minute Stochastics Reversal UP Through 20 Band
- 1 Minute Noodles Stochastics Reversal UP Through 20 Band
- 3 Minute Noodles Stochastics Rise
- 3 Minute Moving Averages Chart Uptrend
- Buy Side Fade
Ideal SHORT Signal Premises for Oscillation Markets

- 1 Minute Stochastics Reversal DOWN Through 80 Band
- 1 Minute Noodles Stochastics Reversal Down Through 80 Band
- 3 Minute Noodles Stochastics Downtrend
- 3 Minute Moving Averages Chart Downtrend
- Sell Side Fade
1 Minute Stochastic Chart
(Buy and Short Triggers)
Ideal BUY Signal Premises For TREND Market

• 3 Minute Moving Averages Consolidation, PUP or Gap Fill Breakout
• 3 Minute Noodles Rising
Ideal SHORT Signal Premises For TREND Market

- 3 Minute Moving Averages Consolidation, PUP or Gap Fill Breakdown
- 3 Minute Noodles Falling Falling
PUP Breakout
Consolidation Breakout
Gap Fill Breakout
Let The Trade Come To You

- Oscillation Market - Scalping Low/High Band Reversals
- Trend Market - Playing 3 minute ma breakouts or breakdowns, Utilizing full oscillations for reentries
- “Whoever is First on the field and awaits the coming of the Enemy will be fresh for the fight; whoever is second in the field and has to hasten to battle will arrive exhausted” Sun Tzu
Where Traders Screw Up

- Mixing up Apples and Oranges
- Winning 7 trades and LOSING ALL Gains on the Next 3 trades
- Scalps are Larger Size Lots With Tight Stops on 1 minute Premises
- Swings are Smaller Size Lots With Wider Stops on 3 minute Premises
- Don’t Let a Full Lot Scalp Turn Into a Full Lot Swing when it TURNS
- When PREMISES FAIL, EXIT TRADE
Starting Out

• Watch, Watch, Watch the tools and the synergies
• Paper trade 1 minute Stochastics Bounces = 70% Consistency= 7 out of 10 trades
• Be BORED = APATHY = EMOTIONAL DETACHMENT
• Trade cash 100 shares to “DIP TOES” without Anxiety, need to build comfort level with cash trades
• Try to Duplicate same 70% consistency with 100 shares
• DON’T WORRY ABOUT MAKING MONEY
• FOCUS ON THE TRADE, Commissions will eat up any profits
• TREAT the 100 shares as if they were 1,000
• Duplicate 70% consistency for 1 month
• Slowly Increase Shares 100 shares at a time -- MAINTAIN comfort Level
• When feeling overwhelming anxiety, it means you are overleveraged, drop share sizes
Starting Out Part II

- As you improve and start to consistently hit DAILY GOALS 7 out of 10 times, continue to increase shares
- When you got the SCALPS down cold
- Test out 3 minute ma breakouts on 1/2 lots
- Determine Your STYLE
- Trade laggards in your SECTOR of basket stock, sectors MOVE together from TOP to DOWN, Leaders to Laggards
- Add a New Basket Stock in a different sector
- Repeat the steps
Stop Losses

- Stops are Part of the Game.
- Pauses in your Trading. Putting oneself into a position where defeat is impossible.
- Stops based on type of Trade and Premises
- Scalpers - If 1 min stochastics and noodles fail, stop
- Swingers - If 3 minute trends breaks down, stop utilizing 15 pd support breaks
- The Fine Line between Conviction Versus Stubbornness
2-1/2 Pt Support/Resistance

• 2-1/2 Point levels serve as the immediate support and the next resistance, Premarket too
• These are Speed Bumps on Momentum and always areas for entry or Exit
• Stocks that break through two 2-1/2 supports are primed for a reversal back to 5 period range - A Gift
Scalping

- Fast entry and exit
- Larger shares
- Less Tolerance for Risk
- Early, SWEET SPOTS, Late Entry
- “Supreme excellence consists in breaking the enemy’s resistance without fighting” Sun Tzu
- Scalps are quick in and out
- Know your Stock - Cheaper Thicker Float Stocks give smaller Scalps before a wiggle
- SUNW, CSCO, ORCL, INTC = 1/4-3/8 pt prior to wiggle
- BRCM, JNPR, CIEN, QCOM, PMCS = 1/2 to 1pt prior to wiggle
- Volume is KEY
Swing Trading

- Longer Time Frame
- Larger Risk Tempered By Taking Smaller Shares
- Wider Stops
- Play the TREND 3 Minute Moving Averages Chart with 5 and 15 period trailing profit and final stops
- Measure the Trading Channel distance between 5 and 15 period for wiggle ranges
- ORCL, CSCO, SUNW, INTC = 1/2 pt wiggles
- BRCM, CIEN, JNPR, PMCS, QCOM = 1-1/2 pt wiggles
Shorting

- Practice First on Paper
- Shorting the Same Stock is First Step to True Emotional Detachment and Apathy
- SHORTS Will Run Against you at First, that is expected in order to get a FILL
- Always KNOW resistance levels 15 period and next 2-1/2 resistance
- Have Premises in TACT
- 1 minute stochastics pullback under 80 band
- 3 minute noodles downtrend
- Sell side Bias
Order Routing

- ISLD to ISLD (Fastest Fills and Sweeps)
- Any DIRECT ECN to ECN Route (eg: REDI to REDI)
- Selectnet to ECN
- SOES (17 Second Fills)
- ARCA (Monster)
- Selectnet (yuck)
The Market Day

- 8:00-8:30  Premarket Begins Stocks Gap
- 8:30-9:15  Premarket Peaks/Pullbacks
- 9:15-9:30  Crank reversals
- 9:30-10:00  The Open (Scalps Only)
- 10:00-11:30  Post Open (3 min trends)
- 11:30-2:00  Dead zone
- 2:00-3:00  Post Dead zone
- 3:00-4:00  Last Hour (Scalps Only)
- 4:00-5:30  Post Market
Panic Reversals

- Panic = Opportunity
- Stochastics Bounce 1 minute and noodles
- Target to 5 period then congestion on 1 minute noodles bounce, 3 minute noodles stall
- Target to 15 period on 3 minute noodles bounce
- Consolidation Breakout on FULL 3 minute noodles Oscillation UP through 80 band
System Requirements

- Fast Connection (DSL, Cable, ISDN, 56k)
- Pentium 400+ mhz min (No AMD)
- RAM RAM RAM Max out the Ram
- Two Monitors
- Direct Access Broker, Point And Click, Full Charting and Level 2 (included)
Money Requirements

• $20-50k in RISK CAPITAL ONLY
• No More that $100k
• You WILL LOSE MONEY in the Beginning
• Take out Excess Profits Weekly. Pay Yourself and Maintain one steady balance in Account
The Learning Curve

- Don’t expect to make money from day one
- Just like a business, you need to gain experience and training before you can be self sufficient and profitable
- Expect to make mistakes
- Stops are an EXPENSE
- Stops are simply a PAUSE in your Trading to Reevaluate - Nothing More
- Take it SLOW with the Basket Method and Watch your Basket Stock With the Tools
- Time Frame Depends SOLELY on the Individual
- Those who can recognize PATTERNS and Keep an OPEN Mind Will Succeed Faster - The ability to ADAPT - The Ability to REACT - The Ability to Admit Defeat Cut Losses Fast - The Ability to Manage Stay Focused and Stick to your Guns when Premises are still Intact
Once Learning Curve Crossed

• You WILL STILL have drawdown days, Accept Them
• No One is Perfect - Some DAYS are just not MEANT to BE, ACCEPT the Contrast
• The Key is Keeping Drawdown days to a minimum Loss
• Maintain Easy to Achieve Daily Goals
• When in a Slump, Go BACK to the BASICS- Stochastics, Paper trade
• Learn to Walk away during Dead zone - Clarity will Resume