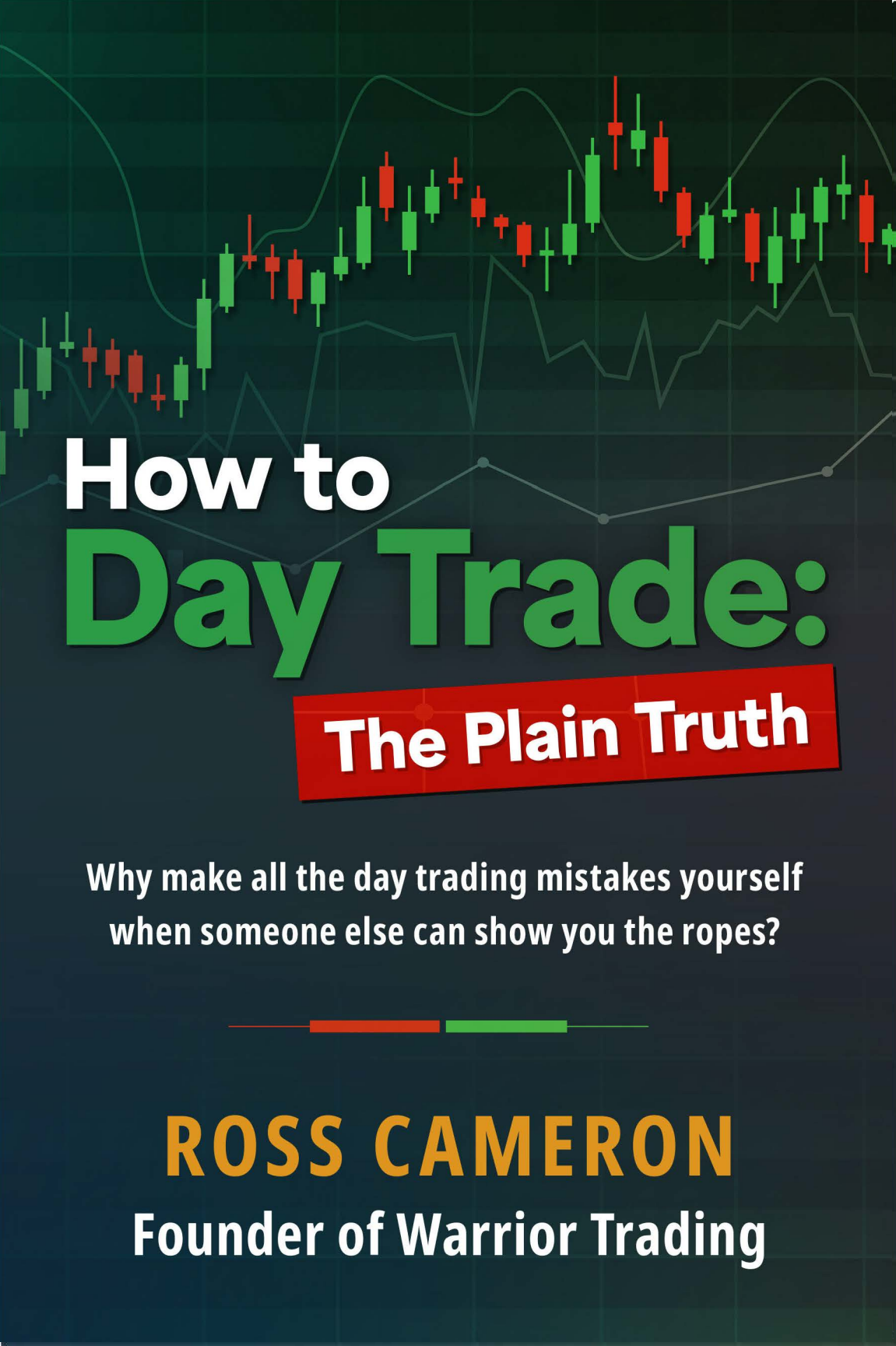




How to Day Trade:

The Plain Truth

Why make all the day trading mistakes yourself
when someone else can show you the ropes?



ROSS CAMERON

Founder of Warrior Trading

How to Day Trade: The Plain Truth



ROSS CAMERON

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Ross Cameron's experience with trading is not typical. Becoming an experienced trader takes hard work, dedication, and a significant amount of time.

Your results may differ materially from those expressed by Warrior Trading due to a number of factors. We do not track the typical results of our past or current customers. As a provider of educational courses, we do not have access to the personal trading accounts or brokerage statements of our customers. As a result, we have no reason to believe our customers perform better or worse than traders as a whole.

Available research data suggests that most day traders are NOT profitable.

In a research paper published in 2014 titled "Do Day Traders Rationally Learn About Their Ability?", professors from the University of California studied 3.7 billion trades from the Taiwan Stock Exchange between 1992-2006 and found that only 9.81% of day trading volume was generated by predictably profitable traders and that these predictably profitable traders constitute less than 3% of all day traders on an average day.

In a 2005 article published in the Journal of Applied Finance titled "The Profitability of Active Stock Traders," professors at the University of Oxford and the University College Dublin found that out of 1,146 brokerage accounts day trading the US markets between March 8, 2000 and June 13, 2000, only 50% were profitable with an average net profit of \$16,619.

In a 2003 article published in the Financial Analysts Journal titled "The Profitability of Day Traders," professors at the University of Texas found that out of 334 brokerage accounts day trading the US markets between February 1998 and October 1999, only 35% were profitable and only 14% generated profits in excess of \$10,000.

The range of results in these three studies exemplify the challenge of determining a definitive success rate for day traders. At a minimum, these studies indicate at least 50% of aspiring day traders will not be profitable. This reiterates that consistently making money trading stocks is not easy. Day trading is a high risk activity and can result in the loss of your entire investment. Any trade or investment is at your own risk.

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If you have dreamed of becoming a day trader, this book
is dedicated to you. You and I are so much alike.
We share the same dream and I hope we have the same drive.
I'm just a little farther down the path than you. I'm here to
support you, and I hope this book is a way of sending the
ladder back down to help you in your journey.



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The Myth and the Reality

THIS BOOK IS ABOUT DAY TRADING, but of course you already knew that from the cover. I bring it up because that is where the similarities end between this book and all the others I've seen about day trading. Same topic, but vastly different messages.

How is this book so different?

I *will not* try to convince you that day trading is your ticket to great wealth. In fact, if your personality and circumstances are not suited to day trading, **I'll convince you to stay away from it**, thus saving you all kinds of time, money, and frustration.

This book *is not* a thinly disguised sales pitch to get you into ever-more-expensive training and coaching programs. Let's say you think you might be suited for day trading: you can **take the specific steps you learn here, and start your journey** without ever getting additional materials from me.

I *will never* tell you I've "cracked the code" and have **the only true system** for making day trading "easy." Quite the opposite: I'll describe how very hard it is to become a good day trader. You'll see from my audited brokerage statements how I've become reasonably good at it, but also how I'm far from perfect.

You'll discover that I have developed *one approach* to trading, and I make no claims of superiority over other strategies. Other traders may teach very different strategies from mine. That's fine—there is no single solution to most challenges in life, and day trading is no different.

Everyone has an opinion

In my more than a decade of being in this business, I've been to a lot of social gatherings and events where the ice-breaker is usually the good old "What do you do?"

I dread when people ask me that, because if I choose to tell them I'm a day trader, I can count on a strong reaction. Usually not an enthusiastic, positive one. After all, if you follow the financial markets

and media at all, you can't help but hear about a few so-called day traders who decided to dabble in some hot stock and soon are bragging on social media about how they're up a million dollars and will be retiring before the age of 30.

Or you might hear about the guy—it's usually a guy—who made some money on a tip, felt like he now had a hot hand, and sunk his savings into a stock. He was assured by *both* the gurus on X or Reddit and the TV-network loudmouths that this stock was the “next Tesla” and it would be “going places” very soon. Except with no strategy for managing risk, when the stock reversed, his account followed, and he became another statistic of a failed trader.

Some people experience big winners on beginner's luck, and others lose it all in risky gambles. A few professional traders survive the ups and downs of the market and maintain long track records of consistency. For them, it's an uphill battle to explain how professional day trading bears little resemblance to public opinion.

Day trading sure has a reputation.

Why this book

I wrote this book to bring real-world clarity to that sensationalized reputation surrounding day trading. You are going to see throughout this book that I will be very blunt with you, and here's the first instance: Day trading is like a magnet that strongly attracts some people and strongly repels others. The problem is that it often attracts the wrong people, and drives away other folks who might be great at it, if they only knew the facts. I will fix that in these pages.

I have the following goals for this book:

1. I must show that **I know what I'm talking about** when it comes to day trading. You'll see that the profession did not come easily for me, but that I've been reasonably successful at it.
2. I will **blow up the many myths**

“Day trading is like a magnet that strongly attracts some people and strongly repels others. The problem is that it often attracts the wrong people, and drives away other folks who might be great at it, if they only knew the facts. I will fix that in these pages.”



and misconceptions that form a hard shell around day trading. It's difficult to think of other professions that are as misunderstood, though I'm sure there are some.

3. I'll **paint a realistic picture of what day trading is and is not**, from someone who's not afraid to show you the good, the bad, and the ugly.

As best I can in book form, I'll give you a sense of **what it's like to sit at a computer and trade stocks like a pro**, but also how it will work when you're a beginner. (Spoiler alert: The main action happens *between your ears*.) You will get a clear sense of whether this profession is a good fit with your personality or not.

4. I'll provide a **detailed and realistic step-by-step path** of how you could dip your toe into this business, and then maybe your foot. There is the wrong way to get started that causes most people to fail, and then there is at least one right way. I'll cover them both.

Another spoiler alert: You'll not get any "magic keys" to day trading in this book, or "secrets that the big guys don't want you to know." That's the clickbait that attracts the wrong crowd.

"A trusted friend"

I've written this book with a certain image of you and myself in my mind: I imagine that we met some years ago, and have had lots of great conversations. We've been through enough so that we can dispense with dancing around a topic. In other words, we talk straight with each other.

You know that I've made a living by day trading. For a while you shrugged and thought: *Hey, whatever. Not my cup of tea, but to each his own.*

But maybe your circumstances changed. Maybe COVID forced you to work from home, and now your boss is forcing you to go back into the office. Maybe you heard about crypto traders or about the crazy-meteoric rise of stocks like GameStop. (It went from \$19 to \$483 in 24 days.¹) Or maybe you and I were catching up one day, and you decided to ask me in more detail about this day trading thing I do.

¹ <https://www.empirestatetribune.com/est/2/17/2021/6imbc9tmazrk2mupt57xphu5lblexa>

For my part, I've not volunteered much about my profession because I value our friendship and figure that you're as misinformed about day trading as the next person. I don't feel like explaining the realities of my career if you're not interested, beyond being polite about "how's it going" on any given day.

I think of this book as our conversations that happened once you sat up and asked me in earnest about the crazy line of work I'm in, whether it was possible to "make a fast fortune" the way people brag on social media, and a hundred other questions.

Because I value our relationship, I'm not going to sugar-coat my answers. I will not tell you what you want to hear. I will not try to convince you of anything, but I'll try to give you a brutally honest brain dump of all the good and bad bits.

Let's say you're not cut out for day trading. It would be great if you find that out just by reading this book, because I'll have saved you a ton of money and headaches versus learning the hard way.

Then again, let's say you have always thought that day trading was for people with more money than brains. Then you discover from this book that in fact, the *real* profession is nothing of the sort, and it meshes nicely with your personality. That's an even better outcome.

Providing solid, experience-based information is what this book is about. You say you have a bunch of questions for me and you want those straight answers? Let's get into it.

Who am I to Talk about Day Trading?

THE INVESTING WORLD IS INHABITED BY ALL KINDS OF PEOPLE. You have those who lost a bunch of money and don't want to talk about it. A number of people have made money and have no desire to discuss it, either because they're too busy making money or they think the more they blab, the greater the competition.

Let's narrow the focus to just those people who are willing to give you information or their opinions about investing, and further narrow it to day trading specifically. These people fall into several groups:

They've never day traded, but they "know a guy." That guy may have lost his life savings, or maybe he did really well. In either case, the advice is based on second-hand information, and probably partial information at that. Was it really "day trading" or did the guy buy a stock based on a hot tip, and months later he sold it? That's not day trading. If you're a real day trader, you buy and sell on the same day. You do not carry any positions over to the next day.

Another group of people dabbled in day trading themselves, but not by first learning any strategies. Brokerage firms make that really easy to do, assuming you have the minimum amount of money to start with and basic computer equipment. (Much more on that later.)

People who do this sort of dabbling can sometimes win, and usually get their butts handed to them. Advice and information from these types of people is going to be incomplete and inconsistent.

Some people have tried day trading, were serious for a while, then got burned. They did not have a support system to help them to figure out what went wrong, and how to adjust their trading strategies. These traders will share with you their horror stories, but may not understand the root cause of their own failures. Though they provide a tale of caution, they may be unable to communicate the strategies or

mental processes that lead to success.

Other people have done day trading and are quite visible online. They might have courses or channels and charge for their services. The only problem is they only make their money on courses and are not profitable traders. They'll be happy to talk about their wins, but will not share their brokerage statements.

Then there's the largest group of people. They are happy to dispense opinions to you, but it's only based on what they've heard about day trading through the news media, social media, or the movies.

Do you see a trend here? These people do not have substantial personal experience based on putting in the hard work to learn proven strategies, and then trade over a long period.

The six criteria for a good teacher

Let me put it another way: you should only learn day trading from someone who:

1. Has personally done it
2. Has traded over not just days or weeks, but years
3. Has been *consistently* successful at it
4. Will share with you not just the successes, but also the challenges and downright failures; and
5. Can document that track record. By "document" I don't mean the occasional tweet of the guy standing in front of his rented Ferrari. I mean audited brokerage statements that cover all of that person's trading activity.
6. Finally, he or she is willing to teach you.

No one maintains a list of people who meet all these criteria. I'm sure several people meet some criteria, and maybe a handful who publish audited brokerage statements.

Because you took the time to pick up this book and read it, you deserve to know how I stack up to those criteria:

1. I've personally traded.
2. I have done so full-time for more than a decade.
3. In terms of consistency, my accuracy rate is 69 percent.
(Accuracy is the percent of all trades that made money.)
4. My YouTube channel has more than a million subscribers and over ten years of educational videos. I routinely upload

recaps of my trading where I highlight both my winners and my losers.

5. I pride myself on transparency. That's why on my website you can see my audited brokerage statements going back for years. This audit verifies over \$10 million in trading profits.²
6. I enjoy teaching and am willing to teach you.
7. I'm going to add a seventh, bonus criterion: I didn't have an easy time becoming a disciplined, successful trader. Far from it, as you'll see in this chapter. I think this may be an important factor, because some prodigy who seems naturally suited to a profession may not be the best person for the rest of us to learn from.

“But Ross, if you're so successful at day trading, why on earth would you be teaching? Isn't it true that ‘those who can't do something, teach it’?”

We're getting right into the no-nonsense questions, aren't we? Good. I get that question all the time, and it's a reasonable one to ask. Here is a multi-part answer:

I'm pretty sure that teaching is in my DNA. My grandmothers were teachers on both my mom and dad's side. My grandfather worked at Dartmouth College, my uncle is a professor at Yale, and my mom was an “activity therapist” or type of teacher at a nearby hospital. From an early age, I was accustomed to being around people who enjoyed teaching. I also was a big brother, which meant I was always a bit of a teacher to my sister. I simply like to teach. Long before I was into day trading, I taught ceramics classes in Vermont. Later, when I was a trading cub, I gravitated to moderating a trading chat forum. I didn't know a ton about trading, but I could answer beginners' questions and that's what I did—for free.

More than ten years ago I shrugged and decided to do videos while I traded and then talk about the trades on camera. I made zero money for quite a while, but that was not the point, because it helped my thought process to describe my trades out loud. I also found that viewers would hold my feet to the fire, so to speak, with their comments.

Besides, as you will come to find out in these pages, there is no

² Reminder, although my results are not typical, they are real. You can see my audited performance here: <https://www.warriortrading.com/ross-camerons-verified-day-trading-earnings/>

reason for me to hold back. There are no “secrets” in real day trading. No silver bullets that give you an edge. As you will see, it’s about dedicating yourself to learning a great deal about how markets move and how other investors think.

“That’s cool that you like to teach, Ross. Why don’t you continue teaching and simply give it away for free? Why do you charge for it?”

Another good question. I do give a great deal away for free, in the form of my continuous flow of YouTube videos, and some materials on my website. Why don’t I give it all away? Because I can’t. I decided early on that in order to provide my community with the best possible experience, I would need to combine all the must-have trading tools into one platform. I hired a development team and built a custom platform for day traders. This platform provides useful information to traders through its stock scanners, stock charts, chat rooms, and live broadcasts.

As you can imagine, it costs money every day the platform is online and running. I have no qualms about charging a fair price for a platform that makes it easier for the average trader to find strong stocks and actionable trade ideas.

Back to my story

I was born in Brattleboro, Vermont, in 1985. My mom worked in the Brattleboro school system before getting a job at the Brattleboro Retreat (the hospital I mentioned earlier). She worked there for 41 years before being unceremoniously laid off. My dad worked at the Brattleboro Retreat as well in the building maintenance department. He had been a Fulbright Scholar but had a variety of health issues in his life that greatly affected him, and also who I grew up to become.

My mom wanted to make sure that I got into the habit of working from a young age. She was sort of my agent, helping me to get a paper route, and then jobs like mowing lawns and maintaining swimming pools.

Pivotal moment

I was at a Montessori school during seventh and eighth grade. My teacher Kevin did an amazing semester on the stock market, where he had us pair up. My buddy Cooper and I created a dummy portfolio and each day we’d chart the prices in class and discuss the stocks.

This got me a little inspired, and I think it showed. Another project at the school was to pair up with someone and write biographies of each other. My friend took this photo of me and wrote on the back: “20 years from now, Ross will be living in New York City and working on Wall Street.”



Figure 2-1: Future day trader

The portfolio we created intrigued me, so I called up my local Edward Jones office. I told them I wanted to buy shares of American Ski Company. It was trading around 90 cents then. The broker said: “Okay, how much do you want to invest?”

“I have \$100.”

He said: “Well that’s going to be a problem. We charge a commission of \$50 to buy and another \$50 to sell.”

“Oh. Never mind.”

The stock market went on the back burner and I found a new interest in the computer lab at school.

I started a business with my neighbor to build websites for different businesses in Brattleboro. That’s when I learned how to code in

HTML, and also a little graphic design. I enjoyed the feeling of being in business for myself. I continued building websites for myself and for friends over the years, including the first website at Warrior Trading, but web design didn't become a continuing business for me.

After a while, I developed an interest in architecture and also ceramics. In high school and during college I taught classes in ceramics to adults and kids at a local studio.

Coollest kid ever

While in high school, I had another friend named Ben. Get this: as a high school kid, Ben made \$16,000 by trading a penny stock. It wasn't day trading; Ben had been given a tip by someone's dad and he acted on it.

Ben then proceeded to buy a used Nissan Pathfinder and outfit his basement with an awesome sound system, jukebox, and an arcade machine. This all made a **big** impression on me! I'm like: *If Ben can do it, maybe so can I.*

Ben didn't continue to invest—he blew that money pretty quickly—but it got me thinking. I opened an Ameritrade account in the summer of 2001 and funded it with my life savings from mowing and such, which amounted to about \$1,000. I bought a few shares of ExxonMobil, Caterpillar, Cannondale Bicycle, and American Ski Company.

By the end of the summer, my portfolio was basically unchanged, to my chagrin. I didn't have quite the hot hand that Ben did.

As I made my way through high school, I put little thought into college and did not study for the SAT exams. I had become a very anxious teenager, and the prospect of going to college overwhelmed me to the point of paralysis. But my mom urged me to apply to schools anyway, and I got accepted to Colby-Sawyer College in New Hampshire with an art scholarship.

I studied art and education with an eye to maybe becoming an art teacher. That would allow me to do ceramics, and I'd have a teaching certificate to fall back on and I could become a regular teacher, if necessary.

Downturn

That was the plan, at least. What got in the way were my panic attacks. They began in high school and got worse in college. They were

bad enough that I dropped out of college after three semesters.

My anxiety was made worse when my father was diagnosed with stage-four lung cancer and given one year to live in 2005. As a college dropout, I was living back at home in Vermont to help in any way that I could. My mom, working again as my agent, helped find me a job pumping gas at the local Sunoco station.

This was a pretty tough period for me, not only because of my father's situation and my anxiety attacks, but also because I felt like I was going nowhere. There wasn't a lot of ambition in the folks I hung around with at the gas station.

I thought that what might work for my situation was to run some kind of business, like maybe the ceramics studio I had worked at for a while. That might be a way to make a living more on my own terms. I began to think I just needed to make enough money to buy a piece of land and build a cabin with a ceramics studio. I envisioned a life living off the grid, selling my work at summer craft fairs and festivals, and teaching as needed. However, with a lack of funds to make that dream happen, and with the guilt of having only partially finished my degree, I decided to go back to college in Vermont.

While my father was sick, I attended classes at the Community College of Vermont in Brattleboro. After my father passed away, I enrolled at Vermont College, which had an online program. Basically a semester involved reading fifteen books and then writing a ten-page paper on each one of them. I did that for three semesters and got my four-year degree.

Part of the subject of all those books I was reading involved architecture. I'd focused on mid-century modern, American modern, and European modern styles, with a helping of urban planning thrown in. I chose to study architecture not because it was necessarily more interesting than ceramics, but because I thought it was much easier to read and write about.

Big city

While I was living at home and finishing my degree, I continued working in the ceramics studio, but the hours were limited and I wasn't saving any money. At the time, I had a girlfriend from Vermont who was living in New York City while she was going to school. I took the train down to visit her, and what started as a long weekend turned

into my living in New York City with her for the next four years.

I needed a job and applied for two internships. The first was at a hedge fund. In characteristic Wall Street parlance, they told me to fuck off. They said my degree was not even close to being relevant.

The other internship I applied for was at an architecture studio, and I got that job. It was with a small firm, which meant that I ended up doing a lot of different things there. I managed a construction budget, worked on their website, visited contractors, invoiced clients, helped get permits from the building department, and so on.

I worked there for several years and eventually thought that maybe I could start a business of my own along the same lines. Around this time, I felt a pull back to Vermont. I'd go back there on some weekends, and the contrast was sharp between the pressure of Manhattan and the rolling hills of Vermont.

This was also a difficult time because the panic attacks increased. It didn't help that my boss, the studio owner, was your classic New York jerk: super rude to people, super entitled, and a screamer. Monday mornings often began with this guy yelling at his wife, his employees, and his contractors.

By this point, my girlfriend was tired of living in the city and decided to move back to Vermont. It was hard enough to make ends meet in the city and if she left, I'd have the entire rent on my shoulders.

We both moved back to Vermont, and I continued to work at the architecture studio, but remotely. After a bit, my girlfriend and I parted ways, and I was living back at my mom's house, now in my mid-20s.

In 2009, when my sister turned 21, we each got \$100,000 from my dad's estate. That money had come from when he and my uncle sold their mother's house in New Hampshire in the early 1990s. I wanted to invest at least part of that money. The problem was that, aside from Ben's cool 16 grand and my limited experience with large-cap stocks, I didn't know how to invest.

I moved into a small farmhouse not far from my childhood home, and got reacquainted with a girl I'd known in high school. About a year later, we got married.

The New York job remained stressful in terms of interacting with my boss. After one of his bigger outbursts at me over the phone, I quit on the spot. I was now unemployed.

I had already been focused on investing the money my father left me but I was using a financial adviser. The results were far from impressive and, despite the poor performance, I was still paying fees to the adviser. I thought maybe I could do better than the investment results I'd seen so far. The good news was I had some money available. The bad news was I had no idea how to manage that money, especially given my new "job status."

Backing into a decision

I had some thinking to do. I was only 24, and I had \$100 grand. If I played my cards right, it seemed like that would go a long way toward a good retirement nest egg.

Could I maybe put it in nice, safe investments that paid dividends and would not blow up? The recent subprime-mortgage crisis put a huge dent in the American economy, and I needed secure investments.

Hmmm. A dividend of 2.5 percent on that entire \$100 grand would equal \$2,500 per year, gross. That was a non-starter.

When I was living in New York City, I'd been making \$45,000 per year. The costs of living were so much higher there than in Vermont. I figured that if I could gross \$1,000 a week, that would be a pretty good living.

Okay, so \$1,000 a week meant \$50,000 a year in round numbers. I've got \$100,000 to do it with. What am I going to do in order to get there?

I might find junk bonds that paid fifteen percent or maybe eighteen percent. That would get me part of the way there, but nothing would return fifty percent!

I thought about my friend Ben. As a mere kid, he scored that \$16,000 in the penny stock market. I didn't know what he started out with, but it was probably less than five grand. He was able to triple or quadruple it in short order.

Hmmm again: If I could start with that amount and do a Ben-type of trade just three lousy times in a whole year, that'd be 45 grand! And I knew a whole lot more about trading now than Ben had known. That seemed like what I logically needed to do in order to turn that inheritance into something sustainable.

In hindsight, working backwards like that is the worst thing you can do as a foundation for day trading. You should want to explore

trading through genuine curiosity about learning it, and not from the pressure of putting food on the table.

It felt like a tremendous amount of pressure on me, but it also seemed like a prudent calculation at the time. I was fine with staying home and learning everything I could about trading, but that was not my wife's idea of fun. She wanted to travel and she did not scrimp and save.

A penny here, a penny there

To follow in Ben's footsteps, I began my new endeavor by Googling "penny stocks." There were plenty of websites dedicated to hot penny stocks. Talk about hype: everywhere I looked, I was told about stocks "set to take off" or that were rated as "strong buys." Stocks that would "disrupt the trillion-dollar sports industry" or that were "wildly undervalued."

What pretty much all of them did was tempt you to put in your email address or cell phone number, promising free alerts for the next big mover. Many of them had countdown clocks on their sites, showing when that next amazing tip would drop—if you were signed up to get it.

Once you signed up, two things were likely to happen: First, you'd get a steady stream of "hot tips" that the website was paid to promote. Second, they'd sell your contact information to many other services. In no time at all, my inbox was flooded with "hot penny stock" alerts.

I signed up at a lot of these sites, plus joined some forums and message boards. Like most things on the internet, a few were well done with useful information, and most of it was useless. It didn't take long to see which was which.

Eventually I settled on a handful of sources for stock information, and I actually had a little beginner's luck. I'd get the email alert, buy a stock, and I'd sell it for a small profit. With other tips, I lost money.

It also didn't take long for me to get frustrated. First, I felt like I was 100 percent dependent on waiting for the next alert. Then when I got it, I'd have to act *immediately* on it, or I'd feel like I missed some of the action.

The second frustration was with some of the "premium" alert services I joined. They seemed to be run by successful investors, and they reliably sent email and text alerts for the trades that the head of the

service was taking. They might even provide a “watch list” of stocks.

But the problem was that there was this huge disconnect between their results with the stocks they traded, and a beginner trader like me developing a process for actually finding *which exact stocks to trade*.

How did they find the stock? Why did they get in? At what price did they get in? It was especially frustrating when there was no news about the stock, but it was a purely technical reason for the recommendation. What I soon realized is that these services wouldn't teach you to develop your own strategy, because it would be bad for their business model. As soon as you became independent, you wouldn't need them anymore. So they kept you guessing when it came to finding stocks to trade.

They were handing me a fish, in the form of a buy alert, but they were not teaching me to fish. I clearly had a lot of learning ahead of me.

Initially I put about \$5,000 into an E*TRADE account, but almost immediately I got what's known as a PDT notification.

The Pattern Day Trader (PDT) rule is a designation from the Securities and Exchange Commission that applies to traders who make four or more day trades in their margin account over a five business-day period.

A day trade is when you purchase or short a security and then sell or cover the same security in the same day. Much more on this later.

The bottom line was that with my \$5,000 account, I could only make three day trades in any rolling five-day period. If I raised my account value above \$25,000, the restriction no longer applied. So that's what I did.

In my first year of trading, I made around \$30,000. On the one hand, I came up short against my \$50k goal, but I felt pretty good about the year because it was a proof of concept that day trading could work for me. It was my first year of dedicated trading, and I was green!

“...there was this huge disconnect between their results with the stocks they traded, and a beginner trader like me developing a process for actually finding which exact stocks to trade.”



(If a trader makes money or loses money in a day, it's a "green day" or "red day." The same is true for red weeks, green years, and so on.)

I felt like I was close to turning the corner. *This will just keep getting a little bit better*, I thought.

Only it didn't. In my second year, I lost everything that I had made in the first year. On the one hand, I was breakeven after two years. Not terrible. But as I went into my third year, I continued on the trend of having small green days and large red days.

So far, I was red in my endeavor to be a trader.

To make matters worse, I had spent the profit in the first year on my cost of living, and my continued expenses each month in year two and year three were eating away at my trading account balance.

My account was down to the minimum required to day trade of \$25,000. It would frequently dip below \$25,000 and I'd have to add a little money to get back above \$25,000 so I could keep trading.

I also had accumulated credit card debt just to pay for living expenses. It was the one-off expenses that kept adding up. I put my dog's emergency vet bill on one card, a repair of my car on another, and the trip to a friend's wedding on yet another card. I charged these expenses so I wouldn't have to take cash out of my trading account, but I kept falling further behind and interest rates didn't help.

It wasn't like I had taken that \$100,000 and blown it on man-cave toys; I had been careful with the money. Still, I felt like an idiot, a failure, and a disappointment to my father. All I had left of his money was the \$25,000 trading account.

Double-barrel emotions

There I was, the guy with the regular anxiety attacks, and to that I added regular bouts of guilt at losing most of my dad's inheritance. I was in year three with five credit cards each maxed out to nearly \$30,000 in total debt, and a \$25,000 trading account that I couldn't seem to grow.

I felt like I was up against the ropes. I was deeply engaged in trading and wanted to extend my knowledge and turn that corner, but at



**"In my second year,
I lost everything
that I had made in
the first year."**

the current rate, I was going to run out of runway before taking off.

That's when I thought seriously about getting a job, like working the 3-11pm shift at a ski area with my friend David. I also thought about every way to lighten my expense load: I could increase the deductible on my home insurance, and downgrade or eliminate subscriptions to our cell phone plan and Netflix. I had no problem cutting firewood for my wood stove, so I wouldn't have to buy another tank of home heating oil.

Out to lunch

I had gotten myself into this financial bind. I had not only invested in stocks, but I'd invested in myself in the form of knowledge about how to trade. I was willing to work hard to turn that corner. I was also willing to tighten my belt financially and buy more runway so I could finally reap the rewards, but my wife was not on board. She wanted a husband who could take care of her without needing to cut back on spending. She didn't want to choose between taking a vacation or having a few more months to focus on getting a new endeavor off the ground.

"Why don't you get a real job? All my friends from New Hampshire are *real men*, unlike YOU. They work in construction. They're painters and electricians. And look at you. You're trying to make money in the stock market! What do you have to show for it? You're a loser."

Following the Great Recession of 2007-2009, many people had a deep loathing for the big Wall Street banks that brought the financial system to its knees. I think she fell into the belief system that Wall Street and big banks were evil. It wasn't that I disagreed, but I was the little guy, trying to make a little money off Wall Street while living in my farmhouse in Vermont.

In any case, not long after that "conversation," she said, "I'm going to lunch with some friends." I was like, "Okay, see you later. I'll be here, studying my charts."

Except I didn't see her later. She never came back. All her stuff was in the house as if she was going to lunch, except she never came back.



**"Why don't you get
a real job?"**

The first day, I thought something terrible might have happened. I had no idea what was going on. This was crazy. Then we spoke, and she said plans changed and she was with friends and would be home later. Except she didn't come home later. I'm like: *Maybe she needs time to unwind and cool down. After all, our situation isn't that bad compared to other people.* But she never came back. Three weeks of this passed, so I called her. "I don't know what to do, but I do know that this is crazy. If you don't come back by the end of this week, I'm going to file for a divorce."

She didn't come back.

That was actually probably a good thing. She wanted to live a lifestyle that I couldn't provide. She wanted me to work her idea of a "regular job" that I didn't want. And she wasn't willing to get a job herself.

After turning that page, I doubled down on reducing my expenses, because it was now just me and my dog. I cut firewood and also cut every expense I could think of. I made Craigslist ads for stuff in my barn—stuff that I didn't really need. Through all of this, I was able to buy myself some time and extend that runway.

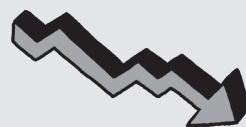
Wanted: guru

Now that I was back on my own, I could really take immersion learning to another level. I continued to look for sources of information on not just *what* to buy, but *why* it's a good buy, and *when* to buy it.

I found some well-regarded services, but they usually gave advice about mid-cap or large-cap stocks. (I'll explain about mid caps and large caps later, or you can look them up in the glossary if you want to know right now.)

The other issue is these sources might even explain why they liked the stock, and why now was the right time to get into it—but it was a swing trade and not day trade. A "swing trade" is where you hold a stock for days or weeks, versus day trading where you don't hold any stocks overnight.

**"...I doubled down
on reducing my
expenses, because
it was now just me
and my dog."**



I could not take that kind of risk. If I held a stock overnight, there could be news about a “secondary offering” or other big event, such that the stock could literally drop 40 or 50 percent overnight. There was no way I could take that kind of risk.

I discovered another source of information, colloquially known as a “squawk box.” In the old days this was a type of public-address system in brokerage houses, tied to Wall Street information sources. It later morphed into online chat systems among institutional traders. (Institutions are places like pension funds, big banks, and brokerage houses doing their own trading, or trading on behalf of big clients.)

The squawk box chatter was stuff like, “My source at Goldman told me they’re looking to unload a big position on \$AAPL (Apple)” or “takeover talk on Alibaba.” It might even be something absurdly cryptic like “AAPL+++.” Maybe it meant something to a guy in suspenders, chomping on his fat cigar at the Morgan Stanley trading desk, but it had zero value to me in terms of what I could buy with that supposedly hot information.

In the course of all this searching, I began to focus more on traders that were day trading small-cap stocks. I learned about the tools they used, like “gap scanners” and “high of day momentum scanners.” (More on these later.)

I never did find someone who was a real mentor to me when I was getting into the business. Instead, it was a slow process of looking around at what was on the internet, and signing up for a lot of mostly free services. Pretty soon I had a firehose of information pouring into my email and phone from all sorts of services that bought and sold my contact information. I deleted most of them and tried a few.

This must have been what prospectors felt and did during the gold rush: you hear some people found gold. Suddenly there’s no shortage of tips about “sure things.” You know most of them will literally not pan out, but some might! How much of your time and money do you spend chasing these leads? How much do you invest in tools like prospecting gear—or in my case, software to locate those next pockets of gold?

Two steps forward

I continued to trade and learn. I had periods where I traded well and would make a little money. Then I would give it back, and then

make money again. It was the classic “two steps forward then two or three steps back.” Every six to eight weeks, I’d think: *Oh man, here we go again.*

I might make around \$1,000 a week for a nice, consistent run of eight weeks—and then I’d give it all back in a \$10,000 loss. Many times those trades were impulsive losses that spiraled quickly into what I called “snowball days.” Then I’d have to regroup, get back on the horse, and rebuild again.

The next crisis came when I took around a \$5,000 loss in the beginning of a new month. It was August, summer was almost over, and that loss dropped my account down from over \$25,000 to about \$19,500. I wasn’t going to be able to day trade in that account until I funded it with more money, to get it back above \$25,000.

My account was offline.

I felt completely defeated. I walked outside, sat on a stump in the woodshed, and put my head in my hands. What was I going to do?

I needed a game plan. No—I needed a *trading plan*. And I also needed \$5,000.

Down to my last idea

I had been trying to absorb good ideas from other traders in the online communities I hung out in. During the time my account was offline, I had time to think. One thing I believe I’ve always been good at is figuring stuff out, instead of just throwing the whole thing out the window. I enjoyed video games growing up and Sudoku puzzles when I was older. Trading seemed like a real-life puzzle. I was at a roadblock on solving this puzzle, but I wasn’t ready to give up. Not even close.

I had an Excel spreadsheet of pretty much all of my trades. Part of the reason I kept these detailed notes was because of the relationship I had with the money my dad left me. I felt like I needed to account for every gain and loss, if only to myself.

The information consisted of things like trade date, amount, the

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**outside, sat on a stump
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stock, how much I made or lost, what was the pattern I saw when I made the trade, and overall comments.

One useful perspective that jumped out at me was to look at the components of my overall performance. True, I had given back my first year's gains in the second year. But I had made *tens of thousands of dollars in gains*, which were offset by a similar amount of losses. My trading had indeed been working well—at times.

Just as traders study the movement of a stock in order to see patterns, I studied my own trades. By this point, I had lots of data in the form of those positive and negative trades. *What was I doing differently when I made money, from when I lost it? It can't be random. What was the pattern? What did the winners have in common?*

I discovered five common denominators. First, I realized I had performed the best on stocks that were up over 10 percent on the day versus the previous day's closing price. For example, a stock priced at \$8.00 yesterday was trading at \$8.80 or higher today.

Second, the stocks I did the best on always had high volume relative to how many shares usually traded in a single day. This is called

relative volume, and it's measured as a ratio of today's volume versus what is average for that stock. A stock that had 10 million shares of volume today, but typically trades only 1 million shares of volume per day, is trading with a relative volume of 10.

Third, on higher priced stocks (above \$20 per share), I had outsized losses. I would have winners too, but overall I was losing more than I was making on higher priced stocks. I attributed this to the larger ranges higher priced stocks trade in, and how

easy it was to take a quick loss that far exceeded my anticipated max loss on the trade. By eliminating stocks priced over \$20, and focusing primarily on stocks between \$2 and \$10—but certainly not more than \$20—my historical data showed I would have been more profitable.

Fourth, often the volume and volatility was the result of some type of news about the company. Focusing on stocks with news seemed to

“What was I doing differently when I made money, from when I lost it? It can't be random. What was the pattern? What did the winners have in common?”



eliminate a lot of the false breakouts and unnecessary losses. However, there were times a stock could make big moves due simply to a “technical breakout” or a “short squeeze” where the stock performed outside of expected parameters and traders took notice.

I decided that focusing on stocks with news would be better, but eventually I might be able to trade stocks without news if they proved they were strong.

Fifth, I realized the stocks most likely to go up not just 10 percent, but 30 percent or even 50 percent or more in a day typically had a very limited number of shares available to trade. This is called the *float*, and lower float stocks are more volatile than ones with a higher float.

When a company does an initial public offering (IPO), it sells a fixed number of shares onto the market. Following an IPO, a company can do secondary offerings to sell more shares; this is a form of dilution and generally reduces the stock price. Companies can also conduct share buybacks or reverse splits. Both effectively reduce the number of shares available to trade.

As an example, when GameStop made its meteoric rise, it already had sold about 69 million shares onto the open market. This represented the float of the company. On the days when the stock traded 100 million shares of volume during January 2021, there was so much demand that as soon as somebody sold shares, another person was ready to buy them. With limited supply and massive demand, the stock price continued to surge higher. It is unlikely this would have happened if the float on the stock had been as large as say, Bank of America, with an 8 billion share float.

As it turned out, the first four discoveries—10 percent change on the day; high relative volume; breaking news; and price between \$2 and \$20—were all based on the criteria that create a high level of demand. The fifth is based on supply. High demand and limited supply creates an imbalance, which leads to momentum and volatility. This is what real day traders are looking for. I can’t believe it took me this long to figure it out. It all comes back to supply and demand.

Up to this point I had tried a little of everything. I had traded stocks like Apple. My thought at the time had been that it was a good idea to get to know one stock really well, so why not take an iconic stock like Apple, which after all had made a fortune for many investors before me.

I had tried trading options, which have the benefit of settling overnight and requiring less buying power. Unfortunately they were really only profitable in the rare occasions that the underlying asset made a very large move. This was too inconsistent to be my bread and butter strategy. I tried penny stocks, but unlike my friend Ben, I found the losses were much larger than the gains. Penny stocks weren't a consistent way for me to make money, and they forced me to be 100 percent dependent on trade alerts.

I also tried small caps. Small caps are relatively smaller companies, as we'll discuss in a later chapter. Most stocks under \$20 are considered small caps. It turns out that I found success in this area; I just hadn't realized it before, because I had spent my first two and a half years trading a little of everything.

Trading a little of everything can be good early on because you'll discover what strategies match your risk tolerance and personality. Unfortunately, in my case, trading a little of everything *at the same time* and with real money caused real problems. It made it difficult to realize that while I had been losing money overall during my second year, one strategy I'd been trading had quietly been outperforming all the others.

With new insights into my winners and losers, I created a plan for getting back on track. A solution to the puzzle was within reach. I decided to stop trading Apple and other stocks that had super-high ownership by big institutions like mutual funds and pension funds. These stocks rarely had high relative volume and rarely were up over 10 percent in a day.

When trading those stocks, I felt like I was playing chess against a supercomputer. I wasn't wrong: I later learned that most volume in these stocks is actually generated by high-frequency trading algorithms and computers run by institutional trading firms.

Cutting out most large caps meant I could cut out options trading because I only traded options on large caps. I could also eliminate penny stocks because I found I was consistently losing money on stocks under \$1.

Based on my self analysis, my best trades were on stocks that were up over 10 percent, had high relative volume, had some type of breaking news, were priced between \$2 and \$20, and had a float of fewer than 50 million shares. I could more easily see trading patterns on

those stocks, but certainly no stock had big days all the time. That meant I was going to need to get comfortable trading different stocks every day, but if I used those five filters, I could quickly get a sense of which ones looked like they *might* have a big day.

Although there will always be some exceptions—such as trading GameStop which was over \$20 and with a 69 million share float—when I was at rock bottom, I couldn't afford to deviate from what my metrics were telling me. It was time to check myself into “Trader Rehab” which you'll hear more about later. Though my back was up against the wall, I now was armed with a real trading plan based on my own historical data. This strategy was not based on stock alerts from penny stock newsletters, or from one of the hundreds of trading gurus blasting out texts and emails, but were solid insights based on when I had actually made money from trading.

This is the blueprint I wish somebody had given me when I got started. At least I had it now. Better late than never.

I still needed \$5,000 to get my account back up above the \$25,000 PDT minimum. A few years earlier I had bought a rare European import Mercedes with a manual transmission and a diesel engine that had been left to rot in my friend's yard. He let me have it for \$350 as long as I could get it out of his yard.

I fixed it up with new brakes, calipers, all new suspension, and new paint. During that project I bought a second Mercedes of the same vintage for spare parts. I loved those cars, but I needed the money, and now with a trading plan in place, I felt confident in my decision: I listed the cars for sale and sold them both. My account was back above \$25,000.

Now I was *really* up against the ropes. I didn't have much left that I could sell if I had another \$5,000 loss.



**“I knew
what I
needed
to do.**

**Now I just had
to execute.”**

Discipline

I knew what I needed to do. Now I just had to execute, and that was by no means a trivial task. I was asking myself to change my behavior on a dime.

Trading discipline was something I had struggled with early on. Even before having my new insights, I had known about how trading was an emotional roller coaster, and how there were certain behaviors to avoid. I created these rules to try to prevent blow ups.

Even though I tried to be disciplined, in my first two and a half years of trading, on some days I'd basically break all the rules I'd set for myself:

- I would be green, then I would give back half of my profit and would keep trading;
- I would hold past my max loss on a trade and hope it bounced back;
- I would average down on a trade (adding to a loser);
- I would trade past the maximum daily loss amount I'd previously set as a boundary;
- I'd trade even after having three consecutive losers, a red flag that should have told me to stop;
- I'd revenge trade, where I tried to make up for previous bad trades by jumping prematurely into another;
- I'd then get furious at what just happened to that last trade and would FOMO in long at the very top (FOMO is "fear of missing out" and I'd buy at the top—when the signals told me not to—just in case it was going higher).

In short, I got emotionally hijacked. And I literally would then pay the price. I was bad at walking away when I was having a bad day, and it was costing me a lot of money. This was the reason I'd have eight or ten good weeks in a row, then in one day, give it all back.

Now it was different. Now I had no choice but to be disciplined. If I wanted to avoid pumping gas or working the 3-11pm shift at the ski resort, I needed to follow my own rules. I had to go cold turkey on my emotions, set firm guardrails for my trading, strap myself in, and do what I knew.

I had come to know one other thing: successful traders did not trade

**"I had come to know
one other thing:
Successful traders
did not
trade for
ten hours
a day."**



for ten hours a day. The focus and discipline to be ON—to be watching a stock second by second intently—simply could not be done for ten hours a day. Sure, anyone can sit like a zombie and stare at a monitor for ten hours at a time, but that's not what professional day traders were doing.

I set myself a limit to trade for two hours a day in the morning. Then I would go outside and split wood. After all, I needed to get ready for the winter and I was *not* going to be buying that home heating oil!

After I finished stacking enough wood, I decided to paint the house. It wasn't so much for aesthetic reasons as it was to preserve my house investment. Besides, the farmhouse was white and a few cans of white paint didn't cost that much versus the trading losses it was preventing.

I got into a routine, kept myself busy, and I felt very productive. In fact, it almost felt like therapy, because I was in control of my tiny little world: I had my strict time window of trading, during which I followed equally strict rules about that trading. Then I would get off the computer.

To be more clear: I shut off my computer and unplugged it. There was even a period when I would put my computer in the car. Anything to prevent myself from opening that computer again for the day. I knew that people who wanted to watch less TV would take the batteries out of the remote and put them in a drawer in the other room. Similarly, I made it hard to look at stocks once I finished my trading session. I could do more wood splitting, scraping, or painting. What I could not allow myself to do was open that computer again until tomorrow.

I developed my mantra: **Get green and shut it down.** In other words, I could trade in my two-hour window. If I made a profitable trade, according to my new criteria, I was green. Shut it down. If my first or second trades were red—again using my criteria—then I might trade again if I saw the right pattern developing. As soon as I got green, or my two-hour window was over, or I hit one of my rules to stop trading—whichever came first—I shut it down.



**"I developed my
mantra:
Get green and
shut it down."**

Tightrope

My guardrails were so tight that I felt like I wasn't on a highway, or even a narrow trail. I needed to walk a trading tightrope. I could not afford to make many mistakes. But this was what I needed.

There were some days when nothing set up. (That is, nothing matched my previously successful trading pattern or "setup" that I was hunting for.) On another day, if I clearly saw my setup, I would trade it with what was a fairly big size for me.

When I saw it clearly, I was going big. *Get green, and shut it down.* If I didn't see it, I wasn't touching it. This was a major turning point for me.

I had been through a multiyear process of experimentation, journaling, and reflecting on the few things that worked and the many that didn't, before I finally started to turn that corner that I had felt had been near for so long. I'm convinced that one big reason I did eventually turn the corner was I stuck with it long enough.

Lonely as it was, I no longer had someone continuously telling me what an idiot I was to be wasting time on the stock market. I also unsubscribed from all the "hot tip" services that simply created dependency on their next alert. I started to be able to go to my little stretch of stream, to my fishing hole, and patiently wait. Some days I caught nothing, but at least I shut it down after a couple of hours. I also didn't chase up and down the stream, listening to others who claimed that they had hooked the monster fish that got away. Other days I caught a fish, and promptly packed up. I wasn't getting rich, but I was getting green on a decidedly more regular basis.



"It took me over two years of studying, testing, failing, and refining to turn that corner and emerge on the other side with a small but powerful set of trading principles."

Two years of work

It took me over two years of studying, testing, failing, and refining to turn that corner and emerge on the other side with a small but powerful set of trading principles. The first one was what I already mentioned: *get green and shut it down.*

The second one, which allowed me to find that fishing hole and start to be somewhat successful, was to focus on the gap scanner each day. This screen showed me which stocks were set to open the highest relative to where they closed the previous day.

This is super-important to view each day for one simple reason that you'll hear me come back to again and again: you need to watch this scanner because huge numbers of other traders are watching it. Traders flock to the top ten gappers. Elsewhere in this book I'll talk about other popular tools and metrics that many traders focus on.

Think about just this one simple measurement—top gappers. Let's say you're really intrigued with a particular stock, and you want to analyze it in depth before deciding to invest in it.

Here's one way to do it:

- You scrutinize all the financial filings the company has made with the government.
- You set up a Google Alert so you'll be notified whenever the company issues a press release, social-media post, or YouTube video about some company activity.
- CNBC is always playing in the background near your desk, so you can pick up chatter about the stock.
- You run a bunch of financial ratios and other analyses to get a sense about whether this stock is likely to move soon.
- Perhaps you talk it over with your broker or financial advisor, to see what that person thinks.

You can do all of that heavy lifting to try to predict if and when that stock might start to move up—even just a little bit. Then again, you might be rewarded with a stock that goes nowhere for a long time.

Contrast that with finding out in real time about what *has* jumped up. The difference is gigantic between what *might* move, what *should* move, and what *has* moved.

This brings me to the next key principle I began to follow: I wait for a stock to start to move, and then I jump in. I wait for it to prove

“The difference is gigantic between what *might* move, what *should* move, and what *has* moved.”



itself: not that it'll necessarily be the next Apple, but that today, it has the potential to squeeze up 20-30 percent or more.

“Well that sounds fine, Ross, but aren't you ignoring one key thing? By waiting for the stock to move, aren't you giving up some of the upside?”

You are correct. By waiting to see the biggest gappers, I've theoretically given up some of the upside, because someone else indeed got in at the moment that gap happened.

But I'm totally OK with that. Let's briefly return to the fishing analogy. It's well established that sometimes the fish aren't biting. If I wanted, I could sit at the stream all day, every day, waiting for the fish to get hungry. Or I could pay some kid to sit there, and only run to fetch me when the fish in fact are biting.

I consider it not as lost money, but gained opportunities: instead of investing all my time in watching a handful of stocks in the hope that some will move, with stock scanners I can watch *all stocks* and will see when those gaps actually occur, for whatever reason. I will take that tradeoff every day.

Later I will get into strategies for how long I stay in, what I do if I get out and the stock keeps going up, and other situations.

Back to the gaps: I came to realize that there is a mentality in trading that when something starts to move, everyone wants a piece. There is a bit—or more than a bit—of a clamor to get some. Everyone wants a piece of the action. It's true that you're battling a little with other traders to get in before the next guy, so to speak. But for a lot of these stocks, I've found that there is enough volume and enough trades for many small traders like me to participate.

Wow, what a trader

In the course of my trading self-education, I chatted with lots of people online about our shared interest in trading. I want to step back for a moment to something that happened to me about a year before I turned the corner. Around this time I developed a friendship with another trader in one of those message-board kind of chat rooms.

He was doing very well, and we would chat about what we saw going on. If you have not taken part in these sorts of chat rooms, you might think that traders keep to themselves, out of fear that they'll give someone else a tip and ruin things for themselves.

I've found that there is more to be gained by chatting with the right sort of people than there is a risk that you'll somehow give away your edge. After all, we're little traders and not Elon Musk, who decides to tweet one day that he wants to buy Twitter and the market moves.

Anyway, every couple of days, one of us would contact the other one. We would sometimes compare what we had our eye on in the morning, and would talk while trading.

I found that I was getting more and more frustrated as time went on: I couldn't believe the disconnect between my trading success and his. It was year two and I'd already run out of beginner's luck. I was on a steady decline with two steps forward followed by three or four big steps backwards. This was back when I was still married and I felt a lot of pressure to turn things around quickly.

I started to feel like this trader I was chatting with was acting on my ideas faster than I could. Maybe he just had more conviction while I kept hesitating. I mentioned my dismay at how much better he was doing, and he had an idea. He said I was helping him a lot, so how about we trade like a team. I could be the research and idea guy, and he could be the main trader?

It sounded like a pretty good idea. We'd set up this little company and fund it with \$50,000 (\$25,000 each) so we could day trade with more buying power. He said, "Just send me the \$25,000 and we'll split the profit at the end of each month." Except before I actually sent him the money, I had a little bit of a funny feeling. I decided to do some digging.

I found out that the name he had given me was not real. Determined to get to the bottom of it, I was able to find his address and his real name based on a few details he had shared in passing over our time chatting. When I Googled him, I quickly learned why he had given me a fake name. He had been arrested before, and the articles about his arrest were the first thing that popped up. His name being on the national sex offender registry appeared as a close second.

I had been a couple mouse clicks away from sending him \$25,000 that I most definitely could not afford to lose. Wow. That was close. I was left feeling that I couldn't trust anyone online. This is one reason I later formed my trading community. My goal has been to create a refuge from unmoderated chat rooms where so many people hang out, including predators.

“Where’s my money, Ross?”

I brought this up because—fast forward to today—I regularly hear about scammers, and *some of them pose as me!*

Someone will email me: “What the hell’s going on, Ross? Where’s my money? I sent you the \$1,000 in cryptocurrency as you told me to, so you could trade on my behalf. What’s taking you so long?”

That wasn’t me they were talking to. I’m sorry they were scammed, but think about it: I post my audited brokerage statements on my website. You can see me trading on YouTube most days. What’s the likelihood that I’d be reaching out to people on social media and asking them to send me \$1,000, so I could take a chunk out of my day and trade that?

It’s like those email spam campaigns where the widow of some prince wants to send you \$13 million out of the blue. It makes no logical sense. I bring this up because I came *this close* to falling for it myself, and I don’t want you to get as close as I did, especially with anyone who would pretend to be me.

The Holy Grail

I had turned the corner, and at last was seeing regular green days and weeks, but I was not done with refining my approach. Because I limited myself to a short trading window in the morning, I had a lot of time during the day to think while I painted the house, chopped more wood, and whatnot.

I had come across some software that allowed for automated trading. You could script a strategy, and it would trade for you. This seemed to be really very cool.

I mean, my problem early on had been sloppy, emotion-driven trading that did not stay within strict parameters. Well, computers are all about following detailed commands. I could now tell a computer to follow all the strict parameters that I wanted, and it would never deviate from that set. It was the ultimate way to take emotion and inefficiency out of the equation and in effect have The Terminator do my trading for me.

I could program in many criteria, like:

- Percentage change on the day
- Volume relative to a stock’s average volume

- The price range I want to trade in (for example, under \$20 a share but not less than \$2 per share)
- Total volume
- Rate of change
- Volume in the last five minutes
- Number of cents that it moved up in the last five minutes
- The spread of the stock (more on this later)

I could tell the system to scan all stocks, all the time. If it found one that met my criteria, then I could direct it to place an order for a certain amount of shares, with a fifteen-cent trailing stop. (Again, don't worry about the jargon. I'll explain it all later.)

This was amazing. And it got better: The system allowed me to take my set of trading parameters and see how well I would have done if I had that system in place during the previous thirty days of real trading activity. This was sort of an insurance policy: I might think that my parameters were good, but how well would they have done if they were in place during the last thirty days? This application of rules to historical data is known as “back testing.”

I back tested my set of rules and was like, *Wow. Over the last thirty days, if I was trading my set of rules with 1,000-share orders, I would have made twenty grand!*

This was it. Yeah, it's work to refine these criteria, but after I did the work just once, I'd be able to rely on the computer to faithfully and perfectly execute my instructions. No complaints, no sick days, and no forgetting about my explicit commands. The Holy Grail!

Too bad the real world was different. I tested my new system and discovered that back-testing was one thing, and actual trading was another. Back-tested results captured a few details about how the markets performed, but they did not record the extraordinary complexity of the minute-by-minute market. It's as if the back testing showed you a video in black and white, and when you ran those commands in the

“I tested my new system and discovered that back-testing was one thing, and actual trading was another.”



real world, you were seeing a million shades of color.

I discovered that “slippage” was the biggest variable. That is the difference between the price that you want or expect a stock to trade when you issue a command to “buy 1,000 shares *now*” and what the actual price is for that trade. The back-test results didn’t factor in any slippage but in reality, on many of the trades I was taking, I was getting a lot of slippage.

The reality is the stock market is like a flowing river. You’re standing there, in the river, with your fishing rod. You cast the rod intending to land your hook and bait in a certain spot, but you end up being one foot south of the spot you were looking at. That happens with the stock market, believe it or not. Humans operate in time intervals of days, hours, minutes, and seconds. The stock market operates in intervals of milliseconds (one thousandth of a second) and microseconds (one millionth of a second). What most people—including me, back then—do not realize is *stocks can trade in microseconds*. That means if another trade gets executed at 14 millionths of a second before my trade, I could pay a higher price on my order.

I discovered that there were other reasons my carefully crafted set of criteria did not work as I expected when I let it loose in the real world: it was possible that my order to buy 1,000 shares was not executed because the markets jumped over my order, and executed someone else’s order that came in around the same few millionths of a second.

Alas. I had thought that I’d found the Holy Grail where I could tune and refine my criteria such that the robot system would follow my exact instructions. It did indeed follow those instructions, but the far more complex and chaotic systems that operated on millionths of seconds delivered different results.

My concept had merit, but the success of it depended on designing systems that could handle a great deal more of the behavior that happened in those millionths of seconds.

I was using impressive software, but it cost me a paltry \$99 per month. In effect, I was trying to play on the same field as the Big Boys like Goldman Sachs, Morgan Stanley, and Citadel. Except they hired brilliant physicists and mathematicians and spent hundreds of millions of dollars to create their high-frequency trading systems. Those systems do indeed extract billions of dollars of profits from the stock market.

I could not play in their league. I didn't have the experience or the money to hang with them. That was the bad news, but I realized that there was also good news: I could still play the game, and win. I would just have to be content with doing it on my own, at the rate of two hours a day.

That thought gave me a type of peace. The giants could clash overhead and compete for the billions of dollars at stake in the market at large. Let them have at it. I was content to compete where the stakes were, first, my cost of living, then a nest egg, and if I played my cards right, a few million dollars in the bank. My big dreams would not even register as a blip on the screens of the Big Boys, and that was fine with me.

Thinking out loud

Earlier I mentioned that I come from a long line of teachers and teaching seems to be in my blood. I like to share what I know, and I also get clarity from putting my thoughts into words.

Throughout my early years in the market, I had gotten into the routine of answering questions beginner traders were posting in a day trading forum. I rather enjoyed the focused isolation of my solitary life in Vermont, but I also found energy in discussing day trading with others in the forum who were as passionate as I was.

During this time I decided to fence off a little corner of cyberspace that would be dedicated to day trading. I created a website, which was a fun and easy side project given my prior experience building websites. It became a bit of a digital journal where I documented the ups and downs as I was learning to trade. I also wrote articles based on common questions I would see beginner traders ask.

Like many of the websites I'd created for myself in the past, I had no business plan. I didn't quite realize it at the time, but I was building a sort of centralized database for everything related to day trading: from terminology and chart patterns, to detailed explanations of hot keys and order routing. I never found a resource with this sort of focus just on day trading when I was starting out. Even though my website was new, I began to rank well in Google for very specific keywords like "momentum day trading strategies," or "bull flag patterns." That led to people finding me and engaging with my site.

I then decided to point an inexpensive camera in my direction and

hit “record” when I was trading. I embedded videos on my website and uploaded them to my new YouTube account.

It never felt like work to do the blog posts and videos, because I was just talking about the stuff I was already passionate about. This type of exposure also did not trigger anxiety attacks, because I was in my comfort zone while doing it.

Pretty soon it became clear that others were passionate about the same thing, and I developed a following. I always responded to questions and comments, and I noticed there were a ton of questions about all the tools and platforms I was using in my trading. Soon I realized I could earn affiliate revenue by providing special referral links for people who bought the same tools I was using. Even better, people who bought with my special link would typically get a discount.

I liked this model a lot, because it did not cost my viewers anything extra for me to earn the affiliate income. I was not pushing any products on anyone, and the concept was: *Here’s what I use, and why I like it over the alternatives. You’re free to ignore my opinion and use a different tool. But if you decide to buy it, feel free to use my link below; it’ll save you X percent and I’ll earn a small commission.*

I got a trickle of affiliate revenue, and then a bit more.

My goal was to make \$1,000 a week in trading profits. With my small-but-growing following on social media, I thought it would be amazing if I could get to \$1,000 per month in revenue from the blog. That would give me a week’s worth of trading cushion every month. It was a great feeling that even if I was having a bad day trading, I didn’t have to freak out because I had this little bit of affiliate revenue coming in regularly.

Upward spiral

Not only had I turned the corner, but I was picking up speed. My trading was getting more consistent and my affiliate revenue was growing.

By 2014, I had generated enough visitors to the website that I created a free chat room. Naturally, this was a chat room dedicated to day trading. As the community of active members grew, so did the demand for me to be live broadcasting during the trading day. In order to upgrade the chat room features, I discontinued the free service, and created a monthly subscription for a chat room membership.

Later that same year, I taught the first edition of my day trading course. I taught that class on repeat, once a month, for over a year.

In 2015 I wrote an earlier version of the book you are reading now. It was designed to accompany the first edition of my day trading course. It was more of a technical introduction to trading, and didn't go much into exactly what steps you should take to determine if day trading was for you, or all the things you could do to minimize your risk and build your confidence. The book you're reading now does all of that, and more.

During this period I met a great lady, and after a while we got married. She was from New York, and I was from Vermont, so we looked for a place to settle down that was roughly in between. We settled on Great Barrington, Massachusetts. Today, we have two wonderful boys, and I have the dream setup: I can take part in the crazy high-tech world of minute-by-minute day trading, while looking out my window at a backyard filled with birds, chipmunks, and the occasional fox.

Throwing down the gauntlet

Over time, my blog posts and YouTube videos led to my having something of a following in the small-cap day trading community. This following grew as I became more successful as a trader and also as I produced more courses, tools, and other information.

One of the most-common questions I got was along the lines of: "It's cool that you've become successful, but the world has changed since you made the bulk of your money. How do I know your success was not a fluke?" Other variations were more blunt: "I'd like to see if you could make any money if you were essentially starting from scratch, the way *I am*."

I thought those were reasonable questions. The world is indeed filled with so much fake stuff, what with movies containing computer-generated

action adventure scenes, to outlandish claims on the internet, and so on. I think that sometimes there are people who will look for every excuse not to believe things. For example, there are still deniers about

"I'd like to see if you could make any money if you were essentially starting from scratch, the way *I am*."

whether we actually landed astronauts on the moon despite abundant evidence of the missions. But maybe you're one of those people who is not cynical but merely skeptical or questioning, in which case, good for you! Before you invest much time and effort into something as challenging as day trading, you should get your questions answered.

To answer this whole category of questions, I decided to see if I could grow an account from the minimum. As I mentioned earlier, you can't day trade in the US with an account that falls below \$25,000 because you're severely restricted in how many transactions you can execute. However, several other countries have different rules and also have access to US stock markets. It's possible to open a foreign account with as little as \$500 and day trade in the US.

I set a challenge for myself to trade with a tiny account. I deposited a little more than \$500 in the account. After some setup fees and such, I had \$583.15 available to trade.

I won't take you through the play-by-play of each of my trades during that challenge, though you can get more information from the audited brokerage statement on my website here.³

The big picture is that I began the account on January 1, 2017 with \$583.15. In 45 days I had turned it into over \$100,000. In 2019 I crossed \$1,000,000 and in 2022 I crossed \$10,000,000. I continue to trade in this account today.

Though I'm proud of the result, it's really important that you put this challenge in the proper perspective and understand that my results are not typical:

- The fact that I did it does not mean that "anyone can do it."
- Even though I started the account with \$500, it was not the first \$500 that I invested in trading, and it definitely was not my first rodeo. You will remember that I had literally spent



"I began the account on January 1, 2017 with \$583.15. In 45 days I had turned it into over \$100,000. In 2019 I crossed \$1,000,000 and in 2022 I crossed \$10,000,000."

³ <https://www.warriortrading.com/583-to-1mil/>

years learning how to trade. It was regularly a painful and humbling process.

- There is a certain amount of luck involved in trading. In other words, it's impossible to remove all randomness. Therefore, I could have started another challenge the next day, and it might have performed differently.

It's great if you are inspired by my challenge so that you learn more about day trading. That's why I did it.

But as we'll discuss more later, it makes no sense for you to attempt to mimic the trades I take on any given day. That's called *mirror trading*, and although many of those gurus and newsletter services will encourage you to blindly follow their alerts, I actively discourage the practice. What makes sense for anyone wanting to try to trade like me is to mimic the principles and techniques I use to trade, including the strategy, the tools, what to look for, problems to avoid, and so on. That's the whole point of this book.

Takeaways

This has been a long chapter about how I got into day trading. You might conclude that I had some advantages that you don't have, like an inheritance. I won't deny that. Then again, it would be reasonable to conclude that I had some unique disadvantages in the form of my decidedly unsupportive first wife, panic attacks, no formal training in investments, and so on.

Each of us is dealt a set of strong and weak cards. What counts is whether you decide to throw away the weak cards, get some new ones, and how you play that hand. Luck and skill will decide the outcome. What I love about day trading is how luck may always play a part, but there's nothing stopping you from working hard to increase your skills.



“...throughout this book I want to describe those guardrails. Following them does not guarantee success, but I'm highly confident that if you learn about them, you'll have a valuable set of principles that may be useful to consider as you manage your own risk.”

In a sense, it's up to you to **un**-level the playing field in your favor through what you learn about this great business.

Guardrails

Earlier in this chapter I described how I created a set of guardrails, based on my experience and urgent need to turn my trading results around. That concept was so important to my survival and success in this business that throughout this book I want to describe those guardrails. Following them does not guarantee success, but I'm highly confident that if you learn about them, you'll have a valuable set of principles that may be useful to consider as you manage your own risk.



Figure 2-2: Guardrails save financial lives, too

I'm purposefully phrasing the guardrails as what I did—or should have done—rather than suggest what you should do, because I don't know your situation.

I'll make the first guardrail be about the five common denominators I mentioned earlier in this chapter. They are the characteristics of

the stocks that I had the most success trading.

— GUARDRAIL #1 —

My stock-scanning system for momentum day trading: I focus on stocks with the following characteristics:

- 1. Up over 10 percent on the day versus the previous day's closing price.**
- 2. High relative volume (at least 2.0).**
- 3. Share prices are between \$2 and \$10, and not more than \$20.**
- 4. News or some other catalyst is announced today.**
- 5. Relatively low float and therefore greater volatility (preferably twenty million shares or fewer).**

We're not quite ready to roll up our sleeves and learn the technical aspects of day trading. That's because we don't have a clean slate to work from. Instead, we have a bunch of preconceptions and misconceptions about day trading that can get in the way of learning about how best to approach this business. In other words, we have a few elephants in the room.

In the next chapter, let's do some elephant hunting.

“Day Trading is a Scam!”

DID YOU KNOW that only nine cities in America have a population of more than one million people? Well now you do.

My YouTube channel has more than a million people, which kinda makes me the mayor of a pretty large city.

As mayor, I get to deal with a certain number of lunatic citizens who make bizarre demands and will never be satisfied. They should move to another city.

But by and large, I get a lot of great questions from our community. That’s part of the reason I continue to run for mayor of my YouTube channel: I get questions that keep me on my toes, and make me think in different ways.

It’s possible that a few of the following questions have crossed your mind. In some cases, you may have not a question, but a belief about what day trading involves. Either way, leave your rotten tomatoes at home and let’s have a town hall, where I’ll give you straight responses to your toughest questions and remarks.

“If it IS possible to day trade profitably, why haven’t the giant trading firms taken it over and monopolized it by this point?”

That is indeed a fair question. Here’s the short answer:

Day trading is small potatoes. There just isn’t enough money in it for them.

Let’s take one savvy investor as an example. Here’s what a financial writer said about Warren Buffett:

Buffett—and every other billionaire investor and institutional player—is essentially banned from investing in the most explosive opportunities in any meaningful way.

Let’s say Buffett wanted to invest in a small-cap company valued at \$1 million. He could legally invest a few thousand dollars and

hopefully, watch it soar to \$100,000 or more.

But that would be a pittance for Berkshire Hathaway, which is a juggernaut valued at hundreds of billions of dollars today. A home run on a small investment won't move the needle for Buffett.

His other option would be to invest far more—say \$500,000. But then he would own so much of the company that he would need to file a 13D Schedule form with the Securities & Exchange Commission and take on the headaches that come with being what is legally known as a “beneficial owner.”⁴

The giant trading firms are no different. They're looking to make the most money from the largest opportunities, and no one is stopping them. For a firm with billions of dollars of capital to invest, day trading would be stepping over dollars to pick up pennies, so to speak. Why bother with trying to make a dime or even a dollar per share, when you could invest \$250 million in Tesla and possibly return a \$25 million profit, or 10 percent, in a matter of months in a well-timed position?

Institutional trading firms have an undeniable edge in the market. They know—better than you or I could ever know—the inner workings of these Fortune 500 companies. They personally know executives and company owners, as they mingle at social events. They have the best analysts working to predict the future price of these companies. And the stakes are high when billions of dollars in assets are under management.

To help put this in perspective, let's look at Larry, a day trader. He opens a \$25,000 account and let's say he produces \$100,000 in profit in one year by trading stocks priced between \$2 and \$20, as they move up at least ten percent on high relative volume. Of course that performance is NOT TYPICAL, but I'm making a math point here. He's produced a 400 percent return against his \$25k in starting capital. Way to go, Larry!

Let's say that Larry has a *very* rich friend, Christina, who wants to

⁴ <https://www.benzinga.com/startups/22/12/30206886/warren-buffett-its-a-huge-structural-advantage-not-to-have-a-lot-of-money>

get in on the action. It's no problem for Christina to write a check and open a \$25 million account, which she does.

It's exceedingly unlikely, in fact nearly impossible, that Christina will be capable of producing anything close to Larry's 400 percent return. That's because the small-cap markets rarely have the liquidity to support a trader entering or exiting a multi-million-dollar position within minutes. Larry has lots of room to grow his account, because positions of tens of thousands or even hundreds of thousands of dollars can be executed almost immediately. Christina will have to take just a sliver of her account and day trade with it, or else she's just going to have to fish in a much bigger stream than the one Larry's in.

What's great about the stock market is that, among all the different sectors, segments, and financial instruments, there is room for everyone. Day traders may be the little fish, relative to the big institutions, but we manage to co-exist.

“Day trading is gambling. Nothing more, nothing less.”

Anyone can open a brokerage account, fund it with a deposit, and start mashing the buy and sell buttons. Doing just this, in the hope of getting rich, is gambling. Let there be no doubt: some people gamble in the stock market. That does not mean that the profession of day trading equals gambling.

What separates the professionals from the gamblers? The closest legitimate comparison to day trading and gambling would be when we look at a professional card counter at the blackjack table or a professional poker player. Both are highly trained and highly disciplined people. They know with a fair degree of statistical confidence when to hold 'em and when to fold 'em. With strategy and discipline, they can actually push the odds for long-term success in their favor.

Day trading is very similar in this way. Those who approach trading with strategy and discipline have the best chance of pushing the odds in their favor.



“I do think there is a certain amount of beginner's luck out there. I attribute this to the confidence that can come with being incompetent.”

The beauty of day trading is that there are several steps you can take to affirmatively reduce your risk. And by first reducing your risk, you can begin the process of developing strategy and discipline in a safe environment. We will cover this extensively in Chapter 8.

"What role does luck or chance have in day trading?"

You read in Chapter 2 about my friend, Ben, who made a cool \$16,000 while in high school. That sort of trading is luck. And in his case, it was beginner's luck. That winner was not the culmination of strategy and discipline. He heard something, placed a trade, and it paid off. But it was a fluke, as represented by the fact that he's not still trading today.

I do think there is a certain amount of beginner's luck out there. I attribute this to the confidence that can come with being incompetent. It's the blissful ignorance of risk that leads some beginners to inadvertently take high-risk positions. If they pay off, it's beginner's luck. I was profitable in my first year of trading, probably thanks in part to some higher-risk winners, and then I gave it all back in my second year.

But luck works both ways.

As an example of bad luck, I was once trading at my farmhouse in Vermont, and a tree knocked down a utility pole. My internet and power went down, and there was no cell signal there. I had taken a position before the power went out and I was stuck! My laptop was still on, but I was offline. Frozen screen, no quotes. Panic. This could be *very* bad, depending on what the market did next.

I jumped in my car and raced down the road to an area where I thought I might be able to reach my broker on my cell phone, which I did. Fortunately, the stock had not moved a lot. That's a combination of bad and good luck, I suppose.

From that experience I learned a lesson: always have my broker on speed-dial and have multiple sources of internet or communication. Today I have both my primary internet and my computer on an uninterruptible power supply, and my cell phone serves as a hotspot for backup.

Over the long haul, luck plays less and less of a role in day trading. The real practitioners tend to stay in the business, and those who rely on good luck or hot tips tend to get washed out.

“If it’s possible for regular people to make money—consistent money—by day trading, then why isn’t everyone doing it?”

That’s an easy one to answer!

Most people are **not cut out** to be day traders.

Many people who try to day trade come into the profession with severely inaccurate impressions about what it takes to day trade successfully. Some believe having a fancy financial background or exceptional intellect will make them more likely to succeed. Others think it’s just a matter of hanging out on social media and jumping in on the next “meme” stock.

Even if everyone had an accurate impression of day trading, most people will not be willing to put in the time to get good at trading. And those who *are* willing to put in the time may not have the aptitude to be a successful trader.

This is an appropriate time to go over a whole bunch of “qualifications” for day trading that are over-rated or irrelevant. Then we’ll talk about the real qualifications to be a trader.

IRRELEVANT BELIEF #1: *I’ve been told more than once that I’m “good at everything I set my mind to.”* It’s true that successful day trading requires a certain level of self-confidence. You can’t be second-guessing yourself while your finger hovers endlessly over the “Buy” or “Sell” button. But natural talent is overrated. What’s much more important is the willingness to put in the work, and to stick with it through the inevitable—yes, inevitable—down periods. Sometimes it’s the “naturals” who bail out the soonest, and the scrappy, tenacious bulldogs end up being the successful ones.

IRRELEVANT BELIEF #2: *I’m great at math.* That can be helpful, but it’s hardly a guarantee. No matter how great you think you are at math, computers can calculate faster than you can. Traders can set up basically any kinds of ratios and trend lines they wish, and have them calculated instantaneously in real time by the computer, so any natural mathematical gift is less and less of a competitive edge.

IRRELEVANT BELIEF #3: *Day trading should not be that tough; I have an MBA and am kick-butt at reading financial statements.* Congratulations on your hard work to get that MBA. I have some bad

news for you: most of what you learned is irrelevant to becoming a good day trader. In fact, it could even lead you down the wrong path. Here’s what I’ve come to understand:

Day trading is not about becoming expert at the stocks you will buy and sell. Day trading is about becoming an expert at human nature.

You need to become an observer of investing emotions—both yours and those of the other traders. Learning how the human emotions of fear and greed translate into price action is critical to your ability to profitably trade the markets. You need to capitalize on emotions in the market without falling victim to your own emotions. When you’re looking at how a stock is behaving on an intraday basis, it’s not the company that is the engine for gains and losses. Sure, the company may have issued a press release about their quarterly earnings, a new revolutionary project, or a bankruptcy.

Those are all important headlines, but contrary to popular belief, it’s not the news stories that change the price of the stock. Changes in stock price are because of changes in supply and demand. Thus, changes in stock price are driven by active traders and high-frequency trading algorithms. A bankruptcy does not cause stocks automatically to change hands. What the news does is affect the emotions of traders, who then act on their fear, greed, suspicions, intuition, pride, and other strong emotions.

Check this out: Researchers studied stock-market movements after big events. In one study, they looked at the market movements after announcements of the illness or death of US presidents. Following the news, the stock market instantly reacted negatively, but then tended to bounce back the very next day. Think about that: on the bounce-back day, the president was still sick or dead, so nothing had fundamentally changed. Instead, human sentiment had collectively shifted from pessimism to optimism.⁵

Let’s look at it another way: Assume for a moment that you study the financial statements of a company and also go to great lengths to examine the senior leadership of that company. You don’t stop there, but then talk to industry experts and analysts about that company’s products and services, and whether they’re well positioned to grow.

⁵ <https://www.diva-portal.org/smash/get/diva2:727314/FULLTEXT01.pdf>

Even with all of that knowledge, a small-cap stock has the potential to trade up 500 percent or 1,000 percent in the space of one day. Depending on how much you bought and sold on that day—and *exactly* when you did so—you may have done splendidly or you may have lost your butt. Same company, same senior staff, same products. As stocks squeeze up, they are experiencing massive amounts of momentum, fueled by FOMO, greed, and speculation. These emotions fuel volatility. Exaggerated moves are often reversed as emotions swing from greed during the rise to fear during the decline.

To be successful at day trading, what you need much more than a Master of Business Administration degree is a Master of Human Behavior degree.

We talked about three irrelevant things that people may think are qualifications, but that will be of little help in day trading. Here is why day trading is not for most people:

You need to pay the hard and soft costs of admission. When I say “hard cost” I mean that you’ll need to fund your account with a certain amount of money. We’ll talk about your account funding options in more detail later in this book. Other hard costs include the purchase of your computer and any external monitors, and the cost of any courses, chat rooms, news services, and software tools you may use.

The “soft costs” are far more expensive: These involve the significant time you will invest in learning how to day trade. Sure, nothing is stopping you from day trading on the first hour that your brokerage account is open, and with no prior training. That is a recipe for disaster in this business. Depending on how reckless you are, it could cost you far more than the money you funded your account with.

Let’s assume you’re willing to learn. It’s not like school, where you might pull an all-nighter and pass the test. Here’s what you need to do, in order to be successful in *this* real-life school:

1. You’ve got to first learn a lot of concepts. That takes work but is straightforward.
2. Then you need to understand how to manage your risk. This involves a set of principles that you’ll apply in different situations. We’ll talk about them later.

3. Next—if you’re smart—you will not risk a dime, but will see how good you are in a simulator before trading in a real money account. (We’ll talk much more about this tool later.) Maybe you’ll be amazing at first, or awful: the market will quickly let you know.
4. It’ll then be time to figure out what you’re doing wrong, fix it, and try more simulator action.
5. Only when you’re consistently doing at least OK should you even think about using real money. No matter how good you were in the simulator, you’ll discover that trading with real money is different, so there’ll be an adjustment phase.

And these steps are *only the beginning*. You’ll have a long period of learning, successes, setbacks, and adjustments before you’ll feel like you maybe got this thing called trading.

Now, considering all the steps I just talked about, what amount of humanity do you think will stick with it until they’re competent at trading? Yeah, about a teaspoonful. The physical barriers to entry are low. The mental barriers are formidable.

I’m not trying to scare you off or paint a dark picture of the business I love. I am trying to be realistic, so you have an authentic picture at the outset.

If you want to learn a great deal about yourself and how you think and behave under pressure, study day trading. If you want a graduate degree in human nature—both yours and the traders you’ll trade with—study day trading.

It’s the craziest thing: to the rest of the world it looks like we’re engaged in fancy-sounding activities relating to “high finance” or “financial markets” or “prospects for pharmaceutical advances.” Instead, for the most part we’re anticipating what a bunch of other humans will be thinking, feeling, and acting on in the next *five to ten minutes*.



“If you want to learn a great deal about yourself and how you think and behave under pressure, study day trading. If you want a graduate degree in human nature—both yours and the traders you’ll trade with—study day trading.”

If you're willing to pay this significant price in terms of time, money, frustration, and being humbled, you've come to the right place.

“No offense, Ross, but I have a hard time believing that you will tell me *exactly* the methods you use to trade. If you did that, wouldn't you lose your competitive edge?”

It may be hard to believe if you're not in the business, but as soon as you start to learn day trading, you'll understand why I can share everything without fear of being out-competed.

The stock market is this amazing kaleidoscope of activity. Trades are happening—even within one stock—in literally microseconds of each other. National news, local news, and company news is continuously washing over all of us investors: on any given day, are there recession fears? What battles are going on in Congress? Is the Food and Drug Administration authorizing some new drug? Did war break out somewhere? The list is endless.

The “secrets” I try to emphasize relate to things like:

- How to manage your emotions when you're doing great and think you're invincible; or when you've had a string of red days, think you know nothing, and are ready to throw in the towel.
- How to get continuously better at recognizing patterns you've seen before, at seeing new patterns, and at ignoring extraneous stuff.
- A whole lot of ways to manage the risk you're taking.
- How to know when to keep trading and when to shut it down.

These are just a handful of my “secrets.” I'm completely willing to discuss them at length, because so few people will take the time and effort to internalize them. Even if they do, there's more than enough profit in the markets to go around.

Some people have a scarcity mindset, also known as “zero sum”: they think that if they make a profitable trade, someone else loses. I disagree. First, if I make money on a trade, I have no idea how long the person on the other side of that trade held the stock for, and what price they got in at.

Second, the markets are a vast ocean of money, measured in many

trillions of dollars. If you dip your kiddie spoon in the ocean, or a big bucket, or a swimming pool, it doesn't change the water level for the rest of us.

“Ross, I know you did a challenge in 2017 where you turned \$583 into more than ten million dollars.⁶ Bet you can't do that again! After all, the world has turned upside down since then.”

For me, the hardest part of any small account challenge is making the first \$25,000. Beyond that, I feel like it's not a matter of whether I can turn it into millions of dollars—it's just a matter of when I cross that line.

Why is that first \$25,000 the hardest part? In a small trading account I have zero cushion. If I start with \$500, and simply have the misfortune of starting with an eight- or ten-trade losing streak, there is a good chance I'll have to add more money to the account. Does that mean I've failed the challenge? Perhaps. But trading isn't a sprint, it's a marathon. I always get back on the horse and try again.

The reason I don't reset my trading account to \$500 at the beginning of each month is because of the tremendous opportunity cost of trading with such a small account. It's simply not possible to make as much with a \$500 account as I can with a \$50,000 or \$500,000 account.

For me, trading with a \$500 account is really about proof of concept. Does the strategy work? Can I produce profit? It's not about doing the same thing over and over.

Think back to when you learned how to drive. You first studied the book about driving rules, and watched other people as they navigated different situations. All of that was vital to your preparation. But after a certain point, your next big learning moment came when you got behind the wheel. There is nothing quite like learning by trial and error. With learning to drive, trial and error is hopefully within the safe environment of a driving instructor sitting next to you. And let's hope it's not in an expensive car.

The trading simulator is like the driving instructor, making sure

⁶ Just because these were my results, it doesn't mean you will do the same. My results are not typical. Don't be in a rush! You can see my audited performance here: <https://www.warriortrading.com/ross-camerons-verified-day-trading-earnings/>

you don't get wrecked. Trading in a \$500 account is like driving your first car. You'll make beginner mistakes, but the damage is minimal in a small account. Spend all the time you need in that safe environment where the stakes are low. Once you've proven consistency, confidence will follow. That's when it's time to scale up to a larger account.

“I'm intrigued by the whole concept of day trading. You're good at this stuff. Just so you know a little about me, I've been a computer nerd for a long time. I'm *incredibly fast* with the keyboard. Why can't I skip all the concepts and learning, and simply follow you as you trade?”

What you're proposing is known as “mirror trading.” My strong recommendation is that you do not bother to try it, for several reasons:

First, I've been at this profession for a while and my risk tolerance may not be the same as yours. I'll make judgments about what I should do that may differ significantly from what would be prudent for you to do. In some situations, I might decide on the spot that I can take the risk of losing \$50,000, which could be no big deal for me but it could wipe you out.

Second, what you don't realize is you **cannot trade fast enough to be exactly like me**. It's not that I'm some keyboard wizard that can hit the keys faster than anyone else on the planet. It's because the financial markets these days are measured literally in **millionths of a second**—microseconds—while a simple blink of your eye takes many thousands of times longer. Even *if I wanted to*, I could not follow some other trader in real time and hope to get the exact same prices. We humans are competing against machines that can execute orders a thousand times faster than we can.

Third, *what do you learn* by mimicking me? If you are suited to this profession—and only a small percentage of people are suited—you must become self-sufficient at finding and executing your trades. That's what creates true independence. That's when you'll have learned how to fish on your own. It's so much better in the long run than just being fed trade alerts or blindly following somebody else.

“I really like the idea of day trading, but the reality is that I currently have a job that prevents me from trading in the morning, when the market opens. Is there still a way for me to trade successfully?”

That’s a very tough question. To be honest, I cannot think of a day trader who trades only in the afternoon and who has done well in this business. Maybe they exist, but I’m drawing a blank. In terms of volume, the vast majority of trades occur in the first few hours of trading, from 7:30 am to 11:30 am Eastern Time. Trading happens at other hours, but that morning window is when most of the action happens.

I know traders who have side hustles, and who can trade in the morning and then do their other business for the rest of the day. If you simply cannot be available to trade in the morning, you’re going to have a really tough time. I’m not saying that it’s impossible to become profitable, but it will be very much more difficult than if you’re available in the morning. This is also not to say that you couldn’t practice in the evenings or on the weekends on replay data, but when it’s time to test the waters with real money, you’ll need to be available for the morning trading sessions.

“Can day trading ever be made safe?”

No. I can’t predict the future of artificial intelligence and other technologies, but from where I sit, day trading is always going to involve risk. At a fundamental level, you are trying to predict what a bunch of strangers and algorithms are going to do in the next few minutes. You can apply a great deal of experience and risk-mitigation techniques to lessen that risk, but it will never entirely go away.

“I like what I’ve heard about day trading, but I really am skeptical about my chances. I’m not some Red Bull swilling alpha male, but I’m a woman. On top of that...”

Whoa, hold your horses! This is shaping up to be a great question, and I want to answer it more completely in the next chapter. Hold that thought!

The Market Does Not Care

OKAY, WE'RE BACK. At the end of the last chapter, you were asking me a great question. Here is the question in full, and my answer in full:

"Tells what I've heard about day trading, but I really am skeptical about my chances. I've not come that full-on willing alpha male, but I'm a woman. On top of that, I've never thought of myself as being good at math. And by the way, English is my second language. Tell it to me straight: Am I screwed?"

No, you are not. The amazing thing about the day trading business is that it's agnostic. It does not care about your race, ethnicity, age, or political persuasion. It only cares about your actions when you buy or sell, and how much. You will be judged on your performance. Period.

It's a simple fact that most day traders are guys. Fortunately, you can trade from your computer as much as you wish and never set foot in your broker's office if the way that you traded in the market. The thing of that matter is that you can trade from your home, and you can trade from your office.

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Look, there are people in the business who shouldn't be. Lots of them. They are more interested in getting rich than in learning to trade. They are the "hot commodity" and have made "gains" right in if you don't get in now!!" These things you know they are caught up in thinking about how much they could make and they certainly ignore their life savings. This is what I would define as gambling, and unfortunately it's more common than you might think.

I'll be happy if my book persuades some of these impressionable people to not get in the business, because I've opened their eyes to how hard real day trading is.

One of the main reasons I wrote this book is to connect with people who think day trading cannot work for them, but they are wrong. They're curious, or else they would not bother to pick up a book about day trading in the first place. However, they're the person curious and about 95 percent sure that day trading can't work for them. In this short chapter