Introduction to Swing Trading

A free stocks swing trading guide by Prosper Trading Academy

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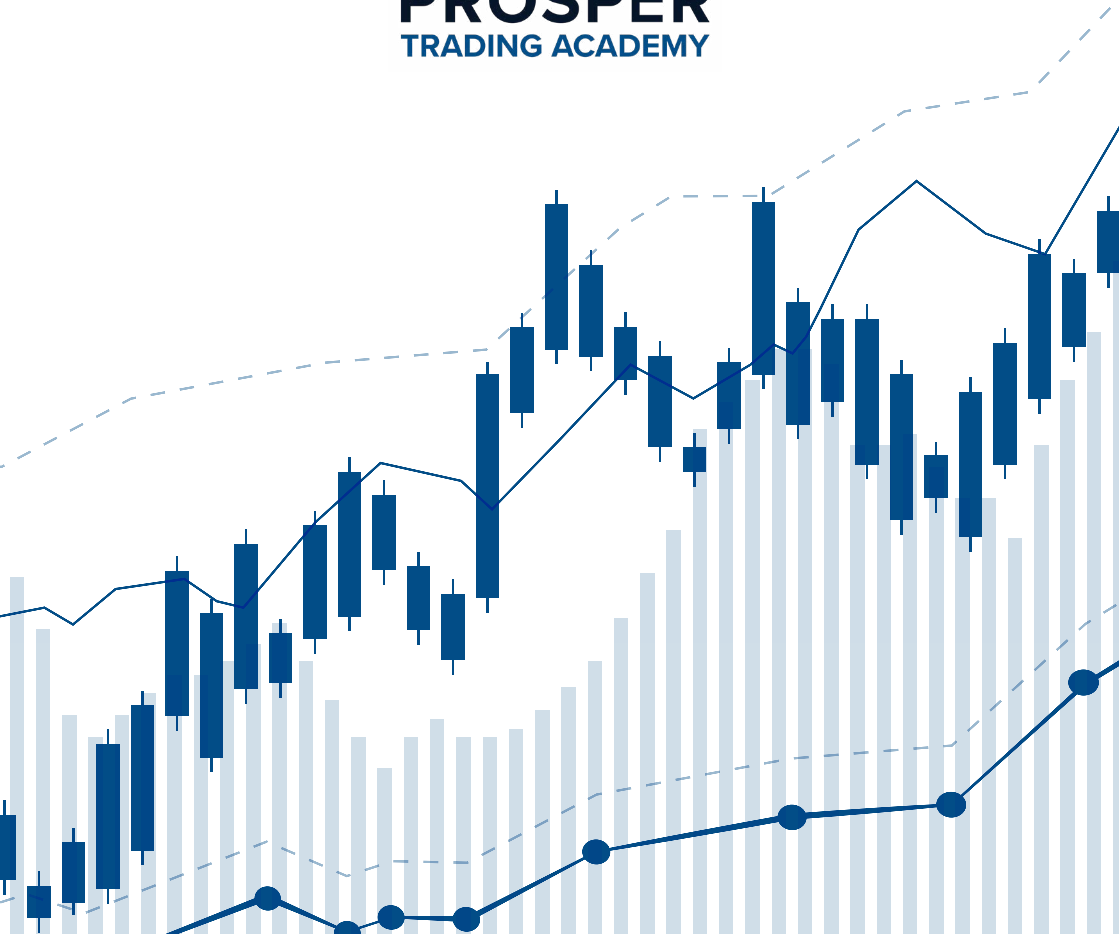

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A Stocks Swing Trading Guide

by

Prosper Trading Academy
&
Dan O'Brien

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About the Author

Dan O’Brien

Senior Stocks Instructor,
Prosper Trading Academy

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

Introduction to Swing Trading

The vast majority of people with money in the market via pension funds, mutual funds and other ways, just don't pay much attention to the different types of trading that are available to them. When the average person thinks of the stock market, he thinks of buying shares of a mutual fund and forgets about the rest. He tells himself, "I'm a long-term investor. Buy and hold is for me." Although that is fine for a portion of his overall investment, he fails to realize that there is more to investing, like day trading or trend trading. But for someone who is already a very long term investor and does not have the time to sit in front of a computer screen all day, perhaps the middle ground is were he can really increase his overall returns using swing trading techniques.

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

So what is swing trading and how is it different from day trading and long term investing? Let's start with the easy one - long term investing. Almost all long term investors are those that just buy and hold. No matter what happens, they're not moving a muscle to help themselves, even when the market is falling. However, there are some firms, usually hedge funds or RIAs, that short stocks for long periods of time, but they are rare indeed. For example, investor Jim Chanos gained fame when he predicted that Enron would file bankruptcy long before it happened and that his firm, Kynikos, was short the stock. **He held it for the long term; all the way to the bottom price of zero.**

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

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

> *The rules permit a pattern day trader to trade up to four times the maintenance margin excess in the account as of the close of*

> *business of the previous day. If a pattern day trader exceeds the day-trading buying power limitation, the firm will issue a day-trading margin call to the pattern day trader.*

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

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

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

- *Swing traders do not care about fundamentals.*

- *Swing traders don't care much for analyst projections.*

- *Swing traders don't even care what the company sells. They're just looking for good movement on a regular basis.*

Below is a chart of US Steel, symbol X. Here is an example of a chart based potential trade. The technical information shows a few moving averages that are bullishly sloping up, a trailing stop program that is bullishly supporting the market, and high daily volume. The horizontal yellow line is on an old price level that defines an area that could lead to a breakout to higher prices. Because of this, the lowest green oval is where a swing trader may look to initiate a series of long positions if it does breakout.

With the concept in mind that a swing trader normally holds a position 3 to 5 days, you can see that the breakout level rallied the stock for 5 days and then fell to support. The 2nd green buying oval led to another 5-day rally, which then led to a week long sideways move. The final green buying oval resulted in another 5-day breakout to higher prices.

As you can see in the example above, when the swing trader has exited his position after 5 days, US Steel went lower or sideways, thus not adversely affecting the swing trader since he was flat. It doesn't always work out that symmetrically, but symmetry is not the point - the point is to hit the fast swing and then profit. After all, the market can always violently reverse, which leads me to another important point of swing trading: going SHORT.

Since a swing trader is never "always in the market" he has the ability to identify weakness in a sector or specific stock

and actually profit as it falls. As of this writing, GE is getting battered. More specifically, buy and hold investors are getting battered! Swing traders, however, can take advantage of the weakness by shorting the red ovals and buying back 3 to 5 days later in the lower green ovals. The first green profit target was drawn 8-9 days later because the downside momentum was overwhelmingly bearish, which would keep a swing trader in the market longer than normal.

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

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

Is swing trading right for you? At Prosper Trading Academy we encourage everyone to find their niche environment. If you can not sit at the computer screen all day for day trading, or simply do not have the skill for that, perhaps swing trading is for you. You may think that trend trading is the answer and perhaps it is, but that takes discipline too - discipline to stay in a position for longer periods of time and ride out the adverse price action. Can you do that or would you rather pocket the cash?

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

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

info@prospertrading.com

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