

Trading With a Small Account



BetterTrades Instructor
WADE SUTTON



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Scope of This Class

- Barriers holding you back
 - Personal expectations
 - Market knowledge
 - Application

- Breaking down those walls
- Managing emotion and building a plan
- Focus and limit distractions
- Practice that is meaningful

How This May Help You Become a Better Trader

- What to Trade
 - How to find and evaluate trading opportunities
- When to Trade
 - What moves a stock
- How to Trade
 - Choosing a strategy that fits your life

The Trader's Mindset

- You are a composite of your experience
- Fear and confidence
- Work ethic
- Expectations
- Failure and success

Additional Reading

“Think and Grow Rich” by Napoleon Hill

“Trading for a Living” by Alexander Elder

“Awaken the Giant Within” by Anthony Robbins

You Will Never Learn To Swim By Reading a Book

- Yes, you need to have a working knowledge of the market, but you have to be in it to learn about it.
- Do not trade with money you cannot afford to lose.
- The market will go up and it will go down every day.

Setting Realistic Goals

- For example: To earn \$100 dollars once or twice a week
- For example: To supplement your income, until you replace it

Day Trading Rules

- If you have less than \$25,000 in your trading account.
- Opening and closing a position during the same business day = 1 trade.
- You can do this three times in a five day trading period.
- If you buy today and sell tomorrow it doesn't count as a day trade.

Choosing a Strategy

- Advantages and limitations of each
 - Stock
 - Naked puts
 - Covered calls
 - Credit spreads
 - Chicken trade
 - Calls and puts

Stocks

Advantages

- Don't expire, unless the company goes away, or you need the cash and sell.

Limitations

- Only make money in one direction
- Typically requires more money

Naked Puts

Advantages

- Buy a stock you like at a discount.
- Odds of winning are twice as good as buying calls and puts.

Limitations

- Requires at least \$2,000 in your account.
- Typically takes more time.
- Potential rate of return is fair.

Covered Call

Advantages

- Stock ownership.
- Paid to own a stock; rent it out.
- Goes up, stays flat, or goes down slightly and still make money.

Limitations

- Typically ties up more money for a longer period of time.
- Potential rate of return is fair.

Credit Spread

Advantages

- Does not require a large trading account.
- Collect credit when entering.
- Compared to a directional trade odds of winning are twice as good.

Limitations

- Typically takes more time.
- Potential rate of return is good.

Calls and Puts

Advantages

- Low cost of entry.
- Great rate of return.
- Allow you to leverage more expensive companies.
- Short term.

Limitations

- 1-in-3 chance of making money; they are directional trades.

Calls and Puts

- Short-term In The Money
- Avg. Daily Volume > 1,000,000
- Open Interest > 100 contracts
- Intrinsic Value > Time Value
- Delta range between .7- .9
- 1-3 full months of time

Keep it Manageable

- Bullish or Bearish
- Stocks move three directions: Up, sideways and down
- Only three things move stocks: Fundamentals, technicals and news

Fundamentals

- What does the company do?
- Are they making or losing money?
- Competitive advantage?
- Assets and liabilities?
- Base on the premise that a well managed company over time will go up and a poorly managed company will go down.

Who We You

Short term momentum options traders
by virtue of the time frame you are trading
(1 day – 3 months)

Give more emphasis to Technical Analysis.

Base on the idea that history has a tendency of
repeating itself

Technical Analysis

- Support/ Resistance
- Volume
- Moving Averages
- Bollinger Bands
- Mac D
- Wilders RSI
- Stochastics

News

- New products
- Lawsuits
- Earnings
- Foreign markets
- Recalls
- Government

Where to get that news

- Dedicated Trader- Market update
- RealTime Markets- Market update
- Google Finance
- Bloomberg / Businessweek
- Wall Street Journal

Get Out of Your Own Way

- Waiting for the 'Big One' sitting on the side lines.
- You have to be in it to learn it.
- Discipline to practice; the mechanics.
- Learning from your experience; treating this like a business.

The Trading Plan

Stock: _____ Price: _____ Date: _____

Bullish or Bearish?

Reason the stock is compelling - Fundamental, Technical, News

EXAMPLE:

If... 'xyz' trades > \$57.20, Then... Buy to Open 3 contracts of _(month)____.
55 calls. Day Limit Order \$3.90

Sell to Close: GTC 4.40.

Protective Stop Loss - If 'xyz' trades < \$56.10

Sell to Close at the market.

Base Hits

- Consider purchasing 3 contracts.

Using the above example:

3 contracts, with a GTC for a \$.50 gain (\$3.90

Buy to Open, Day Limit Order

- GTC \$4.40= \$.50) x 3 contracts = \$150 –
commissions = about \$100 profit.

Odd Strike Prices

- Shows some maturity in the Options
- Often have tighter spreads
- Often accompany stocks that trade millions of shares
- More flexibility in which option to trade

Weekly Options

- Listed at the bottom of Extreme Charts
- Also on the CBOE website
- Allows you to trade even more volatile companies for less money
- Very time sensitive- more appropriate for day trading

Risk Management

- Risk vs. Reward - When trading a smaller account you are more fragile and can get kicked out of the game.
- Miagi's rules of Protective Stop losses.
 1. Don't set at a support or resistance line.
 2. Don't set a whole number.
 3. When trading options, set contingent on the value of the stock.

Make the evaluation before you have money in the trade. Don't panic, but also don't rationalize.

Minimizing Distractions

- When the market is closed, evaluate your watch list, build your plan.
- Have five candidates ready, then ignore the rest.
- Is it a trade for today? Next.
- After the trade has been placed, the only thing you can do is mess up a good trade. Follow the plan!

Minimize the Learning Curve

- Focus on one strategy.
- Keep a journal, in writing.
- Start with small amounts of money.
- Clock in and clock out.
- Making money is a side effect of trading properly.

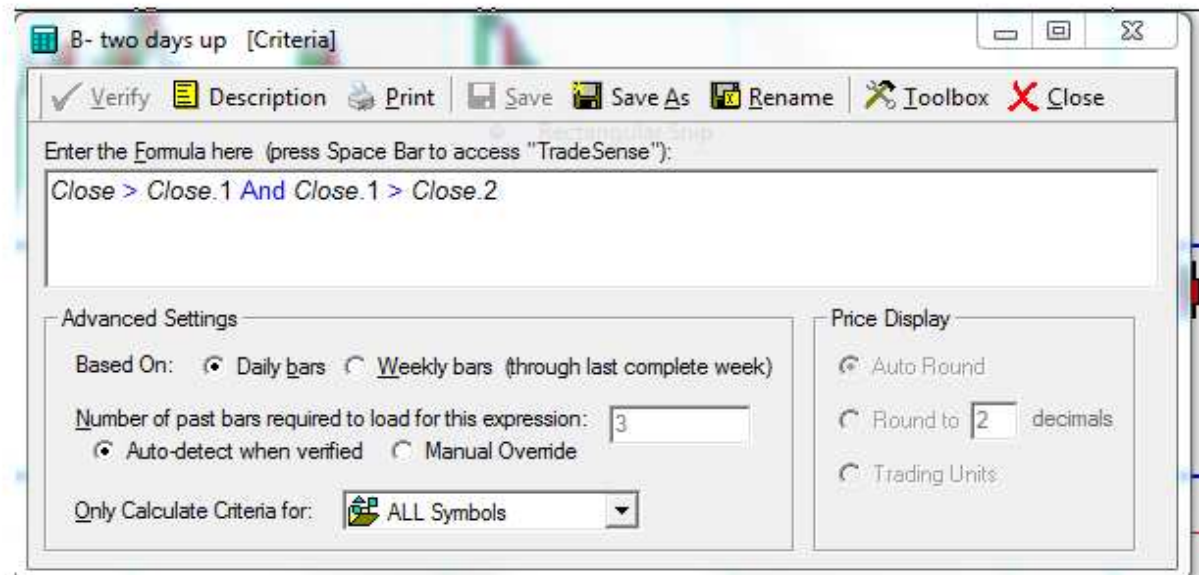
Finding Candidates

- The Dedicated Trader
- 'Usual Suspects'
- Financial TV programs
- Publications (Wall Street Journal, IBD)
- Nasdaq 100
- Sectors- maybe the leader is too expensive, but a sibling could be more affordable. Or in a better position on the chart.
- ETF - Exchange Traded Fund
- Writing a Filter

Building a Criteria

Process for building a Criteria.

1. Open Extreme Charts
2. Left click on Edit
3. Left click on Criteria
4. New
5. Make it identical to the snap shot. Including Caps and spaces.
6. Save
7. Name it: B-two days up.

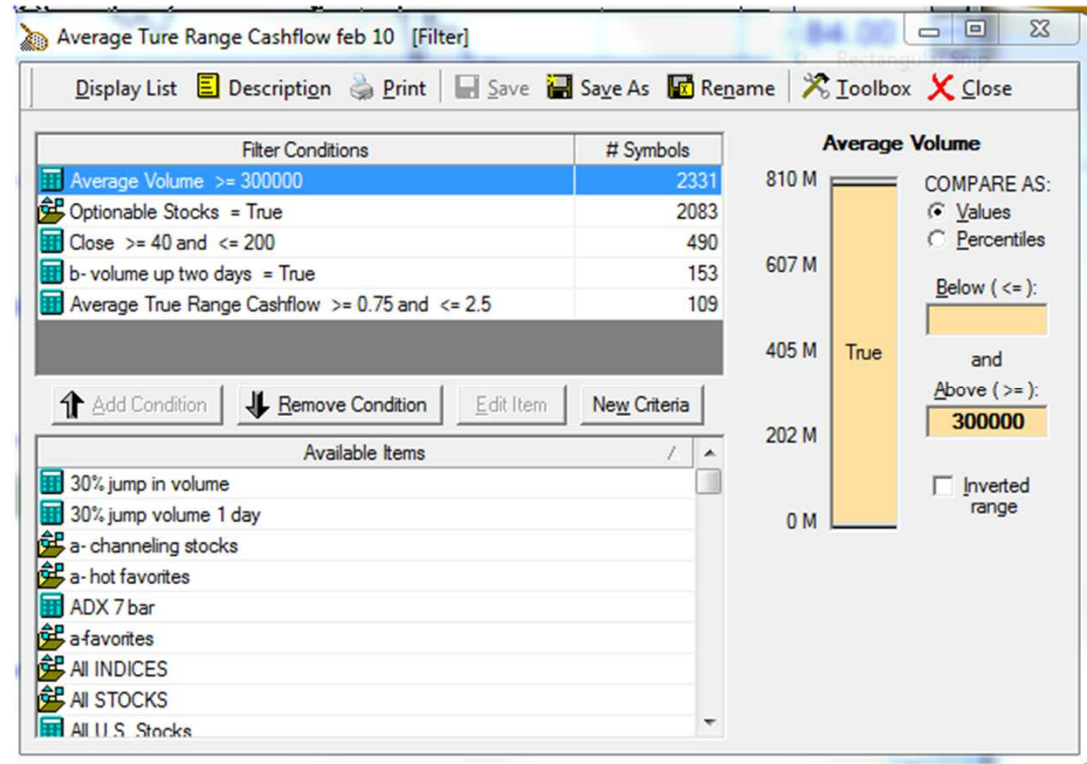


Then it can be used when creating a Filter.

If you use another charting program, the process may be different, but the same information and criteria can be used.

Write a Scan in Extreme Charts

- **Process to build a filter**
- 1. Launch Extreme Charts
- 2. Left click Trader Toolbox (the icon in upper left tool bar)
- 3. Left click NEW filter
- 4. Available Items
- 5. Average Volume: Values >300,000 or more if you want. Add Condition
- 6. Optionable Stocks:True. Add Condition
- 7. Close: Values, Below 200, Above 40. Add Condition
- 8. B-Two days Up: True. (This is the Criteria you built.) Add Condition
- 9. ATR (Average True Range)10 days: Value, Below 2.50, Above .75. Add Condition.
- 10. Save “Danger Zone” Filter.



Disqualifying Candidates

- You will throw out the 90 and 9 to find the One.
- NEXT
- Begin with the Chart
- Then the Option Chain
- Then the Company profile
- Look for a reason not to trade

Qualifying Candidates

- If you cannot afford to purchase the proper option, trade something else.
- Follow criteria for short term option trading
 - Spread less than \$.30
 - Average True Range \geq \$.75 \leq \$2.50
 - Ask less than \$5.50

Thu 03/31/2011: O=36.64 H=37.02 L=36.50 C=36.95 TDofM=23 TDofY=62



Trade Qty Security Last PriceChange **39.07** High -- Low -- DivAmt 0.13 DivDate 08/08/11 AnnHI 41.11 AnnLOW 25.37 EPS 1.55 Volatility 39 Name SBUX

%in %out Primary All

Sep/2011 **Oct/2011** Jan/2012 Apr/2012 Jan/2013 Jan/2014

c_name	c_bid	c_ask	c_hr	c_openl	c_fv	c_iv	c_int	c_tmval	exchange	p_name	p_bid	p_ask	p_hr	p_openl	p_int	p_tmval	p_iv	p_fv
SBUX Oct11 20 C	18.95	20.00	100		19.07	100	19.07	-.12	CMPT	SBUX Oct11 20 P	.01	.02		1,486		.01	82	.00
SBUX Oct11 23 C	16.00	17.15	100		16.07	100	16.07	-.07	CMPT	SBUX Oct11 23 P	.02	.04		738		.02	74	.00
SBUX Oct11 25 C	14.05	15.25	100	1	14.07	100	14.07	-.02	CMPT	SBUX Oct11 25 P	.05	.07		1,351		.05	71	.00
SBUX Oct11 27 C	12.15	12.25	100	37	12.07	69	12.07	.08	CMPT	SBUX Oct11 27 P	.09	.10		810		.09	65	.00
SBUX Oct11 28 C	11.10	12.20	100	7	11.07	92	11.07	.03	CMPT	SBUX Oct11 28 P	.11	.14		719		.11	63	.00
SBUX Oct11 29 C	10.20	10.45	99	87	10.08	67	10.07	.13	CMPT	SBUX Oct11 29 P	.16	.18	1	4,896		.16	61	.01
SBUX Oct11 30 C	9.25	9.35	99	138	9.09	59	9.07	.18	CMPT	SBUX Oct11 30 P	.21	.22	1	1,755		.21	58	.02
SBUX Oct11 31 C	8.30	8.45	97	440	8.12	58	8.07	.23	CMPT	SBUX Oct11 31 P	.28	.29	3	2,703		.28	57	.05
SBUX Oct11 32 C	7.40	7.50	95	273	7.16	55	7.07	.33	CMPT	SBUX Oct11 32 P	.35	.37	5	18,428		.35	54	.09
SBUX Oct11 33 C	6.50	6.60	93	488	6.24	53	6.07	.43	CMPT	SBUX Oct11 33 P	.45	.46	7	3,544		.45	52	.17
SBUX Oct11 34 C	5.60	5.70	88	2,784	5.36	50	5.07	.53	CMPT	SBUX Oct11 34 P	.56	.58	12	11,617		.56	49	.29
SBUX Oct11 35 C	4.80	4.85	83	3,830	4.53	48	4.07	.73	CMPT	SBUX Oct11 35 P	.72	.74	17	11,776		.72	47	.46
SBUX Oct11 36 C	3.95	4.05	77	3,879	3.76	45	3.07	.88	CMPT	SBUX Oct11 36 P	.91	.93	23	13,147		.91	45	.69
SBUX Oct11 37 C	3.20	3.30	69	3,140	3.07	43	2.07	1.13	CMPT	SBUX Oct11 37 P	1.15	1.17	31	3,255		1.15	43	1.00
SBUX Oct11 38 C	2.54	2.58	61	2,542	2.47	41	1.07	1.47	CMPT	SBUX Oct11 38 P	1.46	1.48	39	4,775		1.46	41	1.39
SBUX Oct11 39 C	1.92	1.96	53	2,816	1.94	39	.07	1.85	CMPT	SBUX Oct11 39 P	1.84	1.87	47	8,811		1.84	39	1.87
SBUX Oct11 40 C	1.40	1.43	45	5,683	1.50	37		1.40	CMPT	SBUX Oct11 40 P	2.31	2.34	55	1,646	.93	1.38	37	2.43
SBUX Oct11 41 C	.97	1.00	37	3,338	1.14	36		.97	CMPT	SBUX Oct11 41 P	2.88	2.91	63	531	1.93	.95	35	3.07
SBUX Oct11 42 C	.64	.66	30	3,585	.85	34		.64	CMPT	SBUX Oct11 42 P	3.50	3.60	70	388	2.93	.57	33	3.78
SBUX Oct11 43 C	.40	.42	24	802	.62	33		.40	CMPT	SBUX Oct11 43 P	4.25	4.35	76	218	3.93	.32	32	4.55

Average True Range

- Does the stock move?
- Set to 10 day.
- To find the ATR, take the intraday move of a stock (the high and low) and divide it by the number of days.

Adding an Indicator in Extreme Charts

- Right click on an indicator
- Edit
- Add
 - Add indicator to new pane
 - Average True Range, Value 10

Now Do It!

- Break down the barriers and excuses.
- What to trade, when to trade, how to trade.
- Eliminate distractions.
- Maximize learning.
- Increase consistency.
- Manage risk.
- Teach someone this class.

Register Now

Stop the Bleeding

Wed., March 28

8-10 p.m. ET

Regular price: \$149.95

Special price: \$99

**You must register online to receive special
price**

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