Daily Swing Trade
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30 RULES FOR THE MASTER SWING TRADER

by Alan Farley

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Swing trading can be a great way to profit from market upswings and downswings, but as I've always said, it's not easy. Mastering swing trading techniques takes considerable time and effort. To help get you started, here are 30 rules to think about as you begin and ultimately master the swing trading game.

Rule 1: If you have to look, it isn't there.

Forget your college degree and trust your instincts. The best trades jump out of nowhere and create a sense of urgency. Take a deep breath, and then act quickly before the opportunity disappears.

Rule 2: Trends depend on their time frame.

Make sure your trade fits the clock. Price movement aligns to specific time cycles. Success depends on trading the right ones.

Rule 3: Price has memory.

What happened the last time a stock traded at a certain level? Chances are it will happen again. Watch the tape closely when price returns to a past battleground. The prior action can predict the future.

Rule 4: Profit and discomfort stand side by side.

Find the setup that scares you the most because that's the one you need to trade. Don't expect it to feel good until you take your profit. If it did, everyone else would be trading it. Ancient wisdom from the East: What at first brings pleasure in the end gives only pain, but what at first causes pain ends up in great pleasure.

Rule 5: Stand apart from the crowd at all times.

Trade ahead, behind or contrary to the crowd. Be the first in and out of the profit door. Your job is to take their money before they take yours. Be ready to pounce on ill-advised decisions, poor judgment and bad timing. Your success depends on the misfortune of others.

Rule 6: Buy the first pullback from a new high. Sell the first pullback from a new low.

Trends often test the last support/resistance before taking off. Trade with the crowd that missed the boat the first time around.

Rule 7: Buy at support. Sell at resistance.

Trend has only two choices upon reaching a barrier: continue forward or reverse. Get it right and start counting your money.

Rule 8: Short rallies, not selloffs.

Short-sellers cover profitable trades into market declines, so that's the worst time to enter new positions. Wait until these sellers get squeezed and shaken out, then jump on board while no one is watching.

Rule 9: Manage time as efficiently as price.

Time is money in the markets. Know your holding period for every trade and watch the clock to become a market survivor.

Rule 10: Avoid the open.

They see you coming, sucker.

Rule 11: Trades that work in hot markets destroy accounts in cool ones.

Stocks trend only 15% to 20% of the time. Trading ranges cause grief to momentum positions the rest of the time.

Rule 12: The best trades show major convergence.

Watch for the bull's eye. Look for a single point in price and time that points repeatedly to a trade entry. The market is trying to tell you something.

Rule 13: Don't confuse execution with opportunity.

Save *Donkey Kong* for the weekend. Pretty colors and fast fingers don't make successful careers. Understanding price behavior and market mechanics does. Learn what a good trade looks like before falling in love with fancy software.

Rule 14: Control risk before seeking reward.

Wear your market chastity belt at all times. Attention to profit is a sign of immaturity, while attention to loss is a sign of experience. The markets have no intention of offering money to those who do not earn it.

Rule 15: Big losses rarely come without warning.

You have no one to blame but yourself. The chart told you to leave, the news told you to leave and your mother told you to leave. Learn to visualize trouble and head for safety with only a few bars of information.

<u>Rule 16</u>: Bulls live above the 200-day moving average while bears live below it.

Are you flying with the birds or swimming with the fishes? The 200-day moving average divides the investing world in two. Bulls and greed live above the 200-day, while bears and fear live below. Sellers eat up rallies below this line while buyers come to the rescue above it.

<u>Rule 17</u>: Enter in mild times, exit in wild times.

The big move hides just beyond the extremes of the trading range. Don't count on the agitated crowd for your entry signals. It's usually too late to act by the time they enter the market.

<u>Rule 18</u>: Perfect patterns carry the greatest risk for failure.

Demand warts and bruises on your trade setups. The prettiest patterns set up the most painful losses. If it looks too good to be true, it probably is.

<u>Rule 19</u>: Trends rarely turn on a dime.

Reversals build slowly. Investors are as stubborn as mules and take a lot of pain before they admit defeat.

<u>Rule 20</u>: See the exit door before the trade.

Assume the market will reverse the minute you get filled. You're in big trouble when it's a long way to the exit door. Never toss a coin in the fountain and hope your dreams will come true.

<u>Rule 21</u>: Don't count your chickens.

Profits aren't booked until the trade is closed out. The market gives and the market takes away with great fury.

<u>Rule 22</u>: Don't believe in a company or its fundamentals.

Trading is not investment. Remember the numbers and forget the press releases. Leave the American dream to Peter Lynch.

<u>Rule 23</u>: Don't have a paycheck mentality.

You don't deserve anything for all of your hard work. The market only pays off when you're right, and your timing is really, really good.

<u>Rule 24</u>: Don't try to get even.

Trading is never a game of catch-up. Every position must stand on its merits. Take your loss with composure, and take the next trade with absolute discipline.

<u>Rule 25</u>: Don't trade over your head.

If your last name isn't Buffett or Cramer, don't trade like them. Concentrate on playing the game well, and don't worry about making money.

<u>Rule 26</u>: Don't seek the Holy Grail.

There is no secret trading formula, other than solid risk management. So stop looking for it.

<u>Rule 27</u>: Don't forget your discipline.

Learning the basics is easy. Most traders fail due to a lack of discipline, not a lack of knowledge.

<u>Rule 28</u>: Don't ignore your intuition.

Respect the little voice that tells you what to do, and what to avoid. That's the voice of the winner trying to get your undivided attention.

<u>Rule 29</u>: Don't project your personal life.

Trading gives you the perfect opportunity to discover just how messed up your life really is. Get your own house in order before playing the markets.

<u>Rule 30</u>: Don't think it’s entertainment.

Successful trading will be boring most of the time, just like the real job you have right now.