77 Essential Trading Lessons for Life

BY JOHN S HOPKINS JR
When I first began trading stocks in the late 1980's I really didn't know what I was doing. Back then I relied on what I heard from friends and other investors I knew and a broker I was paying $50-100 per trade to give me tips. I remember one trade I got in-to on the advice of a colleague that literally went belly-up the day after I bought the stock; I hadn't even written the check yet! It was painful indeed to write that $30,000 check to the broker knowing that the value of the stock was zero.

When the late 1990's came around I sold a business I had owned and turned to trading full time. I set up my trading command center in my basement with a few computers and screens and I went at it. It wasn't uncommon for my portfolio to swing by $100,000 per day - up or down. It all seemed so easy, especially when the up days easily outweighted the down days.

Like many other traders back then I didn't think much when the market started tanking in 2000. In fact, when the NASDAQ pulled back 1000 points, I saw it as a great buying opportunity. Then when it pulled back another 1000 points I was ecstatic about yet another buying opportunity. By the time the NASDAQ hit its low of 1108 in October, 2002, I had lost over a million dollars. I
quickly realized that if I was going to continue to trade, I would need to make some radical changes.

I proceeded to get my Series 65 license which allowed me to work with an investment adviser, because I wanted to get a feel for what was going on with other people who were in the market. What I found was that people were hungry for financial education; many traders had gone through some of the same experiences as me. So, in 2003 I tried an experiment and held a one-day technical analysis seminar, and it was a great success. From there, Invested Central was formed in the spring of 2004 with my good friend and partner Tom Bowley, our Chief Market Strategist. We started out with a one-page newsletter and no clear direction as to where we were headed.

It took a few years to figure out our target market - individuals who wanted to handle their own portfolios and who needed to be educated. That is why we shaped Invested Central to be a company that educates our members while providing market guidance along the way.

The journey from the beginning in 2004 to now has been rewarding in many ways. It ultimately led me to the decision to write this book which encompasses many of my personal experiences and those
of many of the thousands of members we have served over the years who have shared some of their best and worst moments. All of these collective experiences in turn led to the creation of the 77 Essential Trading Lessons for Life, lessons that are pertinent to beginners as well as the most seasoned of traders.

My goal in writing this book was to lay out the most essential lessons that I believe every trader must follow to be successful. I want everyone who reads and listens to this book to burn the lessons into their brain because they are THAT important.

I often think of one of the greatest athletes in my lifetime, and in my opinion, the greatest golfer of all times, Tiger Woods. I wonder why he has a full-time swing coach and a full-time sports psychologist, and why he bothers to practice hours a day when he's so damn good. Can't he just show up at a tournament and tee it up, given all of his skills, victories and success? Apparently not. So, why should even the most experienced of traders believe they can just show up when the opening bell rings on Wall Street, and rack up a bunch of winning trades? They can't. They need constant practice as well. They need to study daily, have their game plan laid out, and execute with precision to even have a chance to succeed.
I want to be your swing coach and your trading psychologist, to be a part of your trading team. I want to **force you** to be disciplined, day in and day out. I want you to **be successful**; I don't have any other agenda but to give you the greatest chance possible to build your wealth.

These 77 lessons might at first seem daunting to the beginning trader and too basic to those who are more advanced. Don't kid yourself; these lessons are **essential** to even the most skilled trader and are meant to complement both technical analysis and fundamental knowledge.

That's it! It's all about sharing my years of knowledge and experiences with you so you can dramatically increase your chances of trading success. You can read and listen to the lessons as many times as you want, with the idea that constant reinforcement will keep you focused day in and day out. I hope the lessons become your "trading bible"; I'm that passionate! Above all, I'm in your corner, with a goal of making sure you do more than just try to live to trade another day.
Lesson 1 – Yes, it’s you against the world

Let's start with this premise. When you commit money to the stock market there are many forces working against you. There's someone else on the other side of the trade who would like to buy from you or sell to you with a goal of making money, just like you. There are forces on Wall Street that want to grab as much of your money as possible so they can pay out massive bonuses and buy nice houses in the Hamptons. There are online brokers who want to "help" you learn how to trade so they can gobble up your capital in trading fees. There are stock market analysts who make buy and sell recommendations that might affect those very stocks you are holding, who most likely are letting their best clients know when something big is about to happen before you know what hit you. There are earnings reports coming out from those companies you own stock in that could have a major impact on that stock. There are money managers who want to sell you products so they can feed their families. I could go on and on, but I think you get the point.

Lesson: If you are going to stand a fighting chance to actually make money as a trader, understand first and foremost, that it is you against the world.
Lesson 2 - Are you a gambler or an investor?

Some people like to trade in the stock market because they see it as a form of gambling and like the thrill of a nice score. To them it's easy access to a world that allows them to potentially make nice money without a lot of rules. It’s easy because it can be done from the comfort of the home; no need to travel anywhere like a casino. Then there are others who are serious about building their own portfolios. To them it presents a way to possibly make some spending money or grow their retirement account. They aren't focused necessarily on a quick score as much as they are about preserving their capital first, then building it next. They want to learn as much as they can so they can maximize their chances to succeed. They like the idea of making nice money as well, but don't just need the "score of the moment" to be satisfied.

Lesson: Before you commit your money to the market, be honest and reveal yourself; are you a gambler or an investor?
Lesson 3 – What kind of a trader are you?

You may well know that those who trade stocks often classify themselves into one of several categories; Day trader, trend trader, swing trader, opportunity trader, long-term investor. This classification somehow seems to convince people that they are striving to meet their investing goals by following a time frame, sort of a "label" that makes sense to them. For example, a Day Trader's objective might be to be in and out of positions literally during the course of a day. By the time the market closes, they have no open stock positions. A trend trader might be someone who identifies a specific entry and exit point on a stock and is willing to hold the position until it meets its price target or hits a pre-determined stop loss. As long as the stock remains technically sound, it stays in their portfolio. A long-term investor also might set specific price targets and might be willing to hold on to a stock for months or years. Bottom-line? Labeling oneself as a certain type of trader creates unnecessary hindrances and road blocks.

Lesson: Stay focused on being a successful trader rather than pinning a label on yourself.
Lesson 4 - Are you able to be disciplined in any environment?

If you want to become a successful trader, then you must be disciplined. It is THE most important element of the trading process. It means that when you decide to make a trade you have a specific price target in mind and you know how much you are willing to lose if the trade goes against you. You base your price target and stop loss on defensible levels; no guessing allowed. You don't enter into a position unless it meets your criteria and you exit a position if it hits your stop loss; no questions asked. It might even put you on the sidelines because you can't stand the thought of losing on a trade, but unless you are ready and willing to commit to a highly-disciplined process, you are likely to fail miserably, and there goes your capital.

Lesson: Be willing to commit to a disciplined trading strategy, no matter the market conditions.

Power Trading Tip

Don't make the mistake of blowing off discipline as just "another word." Instead, embrace it fully, as it can change the way you look at trading forever!
Lesson 5 - Pick your market support crew carefully

Unless you are truly gifted and are capable of figuring out everything on your own, you will need to build a market support crew to help you navigate the trading day. There are many services out there who are capable of helping educate you and providing you with superb trading candidates, but there are also many services out there who are all hype and nothing else. Avoid those. Instead, do your homework and look for solid references so you can build a team that you trust to help you make smart trading decisions.

Lesson: Surround yourself with those you trust.

Lesson 6 - Assemble your trading team with care

Here’s a follow on. If you are looking to maximize your trading results, then you should carefully look at assembling your own trading team. The idea of assembling a trading team is to have some support on your side so you can make the best possible trading decisions. This could include someone who provides daily market guidance, someone who provides reliable stock trading candidates, an online broker to execute trades, all who you must trust implicitly. Remember that it’s you against the world out
there, so carefully pick and choose who you are going to have on your trading team.

**Lesson:** Put together a reliable and trustworthy team to help you succeed.

**Lesson 7 – Preparing for a new trading day**

Each trading day brings its new adventures. Being a successful trader means you are fully prepared before the opening bell rings each day. You need to have a good handle on open positions and where they stand relative to your price targets and stop losses. You need to know how much capital you have to deploy for new opportunities. You need to know where key support and resistance levels are on the major indexes. You need to start out each day with an open mind and ready to shift on a dime. You need to start the day with a disciplined mind set and end the day the same way. Remember; there’s not much margin for error so make sure you are prepared every trading day.

**Lesson:** Enter each trading day with a solid game plan.

**Power Trading Tip**

Developing a daily game plan is a lot of work. But, your chances of executing your plan successfully will be greatly enhanced if you carefully organize your thoughts.
Lesson 8 – Committing to a trade

Exactly what does committing to a trade mean? It means you have decided to put your precious capital to work and once that capital is deployed there’s a lot to do. First, you will need to monitor your trades to see if your profit targets are nearing, and if so, decide when to take those profits. You will need to keep an eye on those trades that go against you and decide if and when to get out. You will need to keep an eye on important technical and support levels and make adjustments as necessary. You will need to keep an eye on the overall market action to determine how any of your positions might be affected. Bottom line is this; once you put your money to work you must be prepared to move into action at a moment’s notice.

Lesson: Once your capital is deployed you must remain vigilant.

Lesson 9 – Price targets and stop losses must be defensible

What does being defensible mean? It means that something is capable of being defended, justified. This is critically important when it comes to setting price targets and stop losses. There can be no guessing. There needs to be a specific
reason for setting a price target or stop loss, otherwise there is no true way to determine if the target is achievable or the stop loss makes sense. Unless you are able to convincingly defend the reason why you set a price target or stop loss, don't bother making a trade.

Lesson: There must always be a specific and defensible reason for setting price targets and stop losses.

Power Trading Tip
Setting defensible price targets and stop losses isn't really optional. It's a MUST DO!

Lesson 10 – Measuring your risk threshold

Whenever you have capital deployed in the market, it is at risk. It doesn’t matter if you have positions open for one day or for one year, that capital is vulnerable. You need to decide what kinds of risks you are willing to take before you enter a trade. Are you willing to risk it all, for example, on an options trade with a defined expiration date? Are you willing to dump a loser quickly even if it results in a substantial loss? Do you have staying power in case the market suddenly turns against you?
Just make sure you have a good handle on what you are willing to risk before you pull the trigger on every trade.

**Lesson:** Determine what you are willing to lose before you make a trade.

**Lesson 11 - Focusing on the bottom line**

When everything is said and done, as a trader, all that matters are the financial results. Making one trade or 500 trades and counting the number of winners or losers is irrelevant; how much are you making or losing? That's what really counts. Getting back to the idea of labeling yourself as a certain type of trader, why not instead focus more on your price target than any specific time frame? For example, if you fancy yourself a long-term investor, what would a good annual rate of return look like to you? Five percent? Ten percent? Twenty-five percent? Let's say it's ten percent. If that's your real financial goal, and a stock you buy suddenly goes up 10% the same day you bought it, as a long-term investor, what would you do? Many long-term investors wouldn't even have the stock on their short-term radar screen. Instead, they might check their statement on a monthly basis to see how they are doing. Why not figure out a way to capture that 10% profit the moment it hits? Are you afraid of
being labeled a day trader? Or are you more interested in actually hitting your financial goals?

**Lesson:** Focus squarely on your bottom line; take your money and run once your target is hit, no matter the time frame.

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**Power trading tip**

Leaving hard earned profits on the table is inexcusable. If you want to be a winner, act like one!

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**Lesson 12 – Be flexible to the max**

When you enter each trading day you should have a good idea of what you are trying to accomplish and try to stick to your plan. However, circumstances can change quickly, and you need to be able to adapt at a moment’s notice. This means you need to enter each trading day with a "neutral" mind set so you can adjust quickly to the changing environment. Avoiding the realities that might develop out of nowhere won't do you a bit of good.

**Lesson:** Enter each trading day with an open mind.
Lesson 13 – Setting realistic expectations

Everyone wants to make money when trading, and to some, the more the merrier. However, every single trade made must be based upon realistic expectations, or it could easily end badly. When setting a price target, make sure you have a good fundamental or technical reason for setting that target, not just a level you "hope" you will reach. Otherwise, just setting a target on its own and with no real foundation will likely set you up for a losing trade.

Lesson: Be realistic when setting your price targets.

Lesson 14 – Never use just your "gut" to make a trade

If you are buying a stock on a hunch or simply because you "think" it is going to go higher, do yourself a big favor and don't buy it. Instead, as discussed earlier, you need to have a defensible reason for getting involved in a trade, one that leads you to an educated conclusion and that presents a solid opportunity to make some money. Or, perhaps you subscribe to a service you trust and who has provided you with some stock trading candidates that fit your criteria. Either of these could be a good reason to buy a stock but if you are simply relying on
your gut to make a trade you should really try to avoid taking the plunge.

Lesson: Don't put your precious capital at risk just because you have a "feeling" it will make you money.

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**Power trading tip**

Maybe you've succeeded in other parts of your life by acting on your gut feelings, and if so, congratulations. However, don't expect the same thing to be true when trading.

Lesson 15 - Never be just a bull or a bear

There are some people who just see sunny days and others who always see dark clouds. This can be true in trading, where someone is permanently bullish and someone else is permanently bearish. Do yourself a favor and avoid falling into the trap of becoming a perma-bull or perma-bear. It will end up giving you blurry vision where you only see things one way, and that will prevent you from taking advantage of opportunities you might never be able to see.

Lesson: Avoid becoming a perma-bull or a perma-bear.
Lesson 16 - It’s your capital; protect it

You might have heard this many times before but it is well worth repeating. You first have to protect your capital in order to have any chance at growing it. If you get reckless and off target your capital will shrink and you will constantly be playing catch-up. This can lead to even worse decisions, ending in a never-ending cycle that is hard to overcome. Remember; all the market forces are against you and want to take your money. Don't let them have it.

Lesson: Above all, do whatever is necessary to protect your capital.

Power trading tip

You would defend your family, your friends, your country. Capital is precious as well and you have an obligation to protect it.

Lesson 17 - Instant gratification

If you are hoping to find instant gratification from each of your trades, you need to find something else to do. You might get lucky from time-to-time and make a huge score quickly, but the vast majority of the time you are going to be in a dog-fight to achieve the results you are looking for. Instead, accept
right from the start that it will take time for your trade to develop successfully, and if you get lucky and hit your price target faster than you thought, take that as a gift and move on.

**Lesson: No instant gratification allowed.**

**Lesson 18 - Being stubborn will screw up your results**

If you buy a stock to trade and set up targets and stops, and then don't really follow your predetermined levels, you are going to be in trouble. This is especially true when you move into the stubborn phase of "this stock won't beat me." This is when you are really going to get in trouble and go down a losing path. Let's be honest with ourselves; no one likes to make a bad investment, so if you buy a stock for $100 a share and it quickly goes down to $90 a share, your inclination may be to hold on to that stock until it at least gets back to where you bought it. So, instead of getting out of that stock you initially set up at an acceptable loss level, you decide to "ride it out." Well, once you take that path, you will be subjecting yourself to the potential of even greater losses and possibly even to the level where you can't stand it anymore and simply have to bail out, no matter the loss. This is where the
discipline I talked about earlier comes into play; you dump the stock if it gets to your stop loss level, no questions asked.

Lesson: Exit a position that hits your predetermined stop loss and don't look in the rear view mirror.

Lesson 19 - Spread your capital around

An almost certain way to disaster is having all of your capital tied up in one position. This is particularly true if some unexpected news or event suddenly affects a stock you are holding, and especially if it happens while the market is closed and when it is harder to react. Instead, decide how you want to spread your capital around, concentrating the larger chunks on the most promising trades. This way you won’t be forced to make poor decisions if you are backed into a corner.

Lesson: Spread the risk to avoid major losses.

Lesson 20 - Limit your positions

While it makes a lot of sense to avoid having all of your capital tied up in one position, it also makes sense to avoid having too many positions open at once as well. That magic
number is up to each individual but the more trades you have going at once, the more you will need to keep track of as well. Tracking multiple positions at once could become overwhelming and could add to your trading costs as well while diminishing your overall return. Instead, zero in on the number of positions you feel comfortable in trading at any one time while keeping the stress meter to a minimum.

Lesson: Don’t juggle more than you can handle.

Lesson 21 – Block out external bombardments

When you are trading in the stock market there is a never-ending amount of information presented during the course of the day. None of that should make any difference to you if you've done your homework and have set price targets and stop losses based on more than just guessing. Remember that everything going on around you, including the financial networks and financial news websites, are ultimately in business to make money advertising. It is too easy to get sucked into their world which could have a disproportionate influence on your decision making. Instead, rely on your good work and those you trust to help you make your trading decisions rather than being lured in unnecessarily by external forces.
Lesson: Stay focused on your main objective to make money while avoiding unnecessary influences.

**Power trading tip**

You might be a great multi-tasker in your every-day life. Don't fall into the trap of believing you can do the same when trading.

**Lesson 22 – Calculating risk-to-reward**

If you are going to get involved in a trade, do your homework and get satisfied that your reward-to-risk is at least 2 to 1 in your favor. For example, if a stock is at $10 a share, and your price target is $11, you should have a defensible stop loss no lower than $9.50, meaning you have twice as much upside opportunity to downside risk. In fact, the greater the reward to risk in your favor, the better the opportunity. It might not be easy to determine the true reward to risk, but once you get good at it, your results should improve.

Lesson: Avoid trades that present the opportunity for less than a 2 to 1 reward-to-risk.
Lesson 23 - Never get into a trade if you may be forced to sell

You heard before that it doesn't make any sense to put 100% of your available capital into any one investment. There's a good reason for this. If it turns out that you have made a bad bet the last thing you want to have to do is be forced into unloading that investment because you need the money for something else. Say you have $1,000 to your name and you want to invest in stocks. You see a stock you want to buy and you take the entire $1,000 and invest it in that one position. That's not such a good idea because if something comes up out of the blue and you need some of that $1,000 you could be forced to sell at a loss, putting you at a severe disadvantage. So, think seriously about having at least some capital in reserve so you aren't forced to do something you really don't want to.

Lesson: Backing yourself into a corner is a losing strategy.

Lesson 24 - The closer you get to your price target, the greater the odds are against you

When you set up a price target on a trade, your sights are then set on getting to a price level that will satisfy you. For example, if you bought a stock at $10 a share, with a price
target of $11, that $11 is what you are looking to sell for. That is all fine and good, and especially if you have a defensible reason for setting that price target, not just your best guess. Having said that, remember this; the closer you get to the price target, the odds start working against you. In the example I just cited you are aiming for a 10% return on the $10 stock. So, let's say it works its way up to $10.80, or an 8% move to the upside. This means you are within 2% of your goal to the upside but now if your gains suddenly go away, you've given up that 8% to the downside. Thus, even though you would like to squeeze every penny out of your trade, you might be smarter to take the lion’s share of what you were hoping for and look for the next best trade.

**Lesson: Don't let all of the profits you work hard for disappear just because you come up short of your initial goal.**

**Lesson 25 - Volume most definitely matters**

Before you get involved in trading a stock you should determine the average number of shares traded on a daily basis. This is easy to find and it will give you some idea of the popularity of the stock. As a general rule of thumb, the fewer shares traded, the easier it is for the stock price to be manipulated, and that
works against you. As another general rule of thumb, the lower the average volume, the tougher it may be to liquidate your position at an acceptable price. Savvy traders like to see average daily volume on a stock of at least 300,000 shares before they get involved in a trade.

**Lesson:** Volume does matter so know what you're getting in-to.

**Lesson 26 - Does price matter?**

In fact, price does matter if a stock is nearing key support or resistance, but in general the price of a stock shouldn't have anything to do with your decision to trade except in a few extreme cases. Instead, your focus should be on the percentage you might gain on a trade, rather than the number of shares involved. In other words, if you have $1,000 to invest, why should you care if it buys you two shares of one stock or 500 shares of another stock, as long as it meets your trading criteria? It shouldn't.

**Lesson:** Focus more on price appreciation potential rather than the share price.

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Lesson 27 - Never get emotionally attached to a stock

You may have heard the term "married to a stock." This basically means you have become attached to a stock for more than monetary reasons. For example, you might like the product the company produces or you might like the corporate story behind the company. Whatever the case might be, when you get involved in a stock for the purpose of making money, you need to keep an emotional distance from that stock because the stock doesn't have any feelings for you. Getting emotionally attached could lead you to making bad decisions that ultimately lose you money, which is exactly the opposite of what you are trying to accomplish. So, once you get involved in a stock trade, you need to stay focused squarely on the task at hand; making money, not falling in love.

Lesson: Set strict boundaries when getting involved in a trade.

Power trading tip
Loving those you are closest to is a wonderful human response. Loving a stock is almost certain to end in disappointment.
Lesson 28 - If it doesn't feel right, it isn't

Everyone is tempted from time to time to get involved in a trade that doesn't feel exactly right. It could be on a stock you've been watching go up for a while and you are mad you missed it, or you might hear a "tip" about a stock that you aren't familiar with but are intrigued. I say that unless you feel fully committed to a trade just leave it alone. You may end up kicking yourself if it goes higher but you will feel just as bad if it goes against you. Why bother messing around with something you're just not sure about when there are thousands of other stocks to choose from? It's just not worth it.

Lesson: When in doubt, sit it out.

Power trading tip

There are many temptations in life that should be avoided. This includes making a bad trading decision even when you know you shouldn't. Summon all of your powers to resist!

Lesson 29 - Locking in profits

You might not believe this, but for some people it is just as hard to lock in profits as it is to unload a loser. Honestly, I hear this all the time! This is especially true if someone thinks a stock they own, even when it hits their price target,
could still go higher. Sometimes holding on longer works, but more often than not, it backfires, and those initial profits disappear. Don't let that happen to you; take those profits off the table whenever a stock you own gets anywhere near your price target.

**Lesson:** Grab those hard earned profits without hesitation.

**Lesson 30 – Gravitate to the strong sectors**

Every stock that is on one of the major stock exchanges is categorized into a sector. These sectors are tracked to see which ones are in favor and which ones are not. You should focus your attention on the hot sectors because that tells you where money is flowing. Trying to trade individual stocks for a profit in weak sectors is like trying to swim upstream; it’s sometimes impossible to get anywhere.

**Lesson:** Focus your energies on strong sectors.

**Lesson 31 – Support and resistance**

Understanding important support and resistance levels on the major stock market indexes as well as individual stocks is a
critical component of trading. If you first have a broad understanding of support and resistance levels on a macro level it will help you determine an appropriate long or short strategy. You can then focus on key support and resistance levels on individual stocks and as part of your price target and stop loss strategy.

Lesson: Learn how to spot key support and resistance levels.

Lesson 32 - Understanding moving averages

When trading stocks it is important to understand the average price of an individual stock over specific time frames. The most important time frames are the past 20, 50 and 200 days. By understanding these important time frames you will put yourself in a better position to come up with a successful trading strategy that includes moving averages as part of the decision making process. This can be applied to the overall market as well.

Lesson: Learn how to spot key moving averages.
Lesson 33 – Averaging down

Sometimes it makes sense to enter a trade at more than one level, or averaging down. Averaging down results in a lower cost basis and helps to trim your losses in case a trade doesn't work out. Averaging down is most appropriate on those stocks that are shaping up as good trading candidates but may have more room to the downside. So taking a partial position at one level and adding to that position at a predetermined level should it get there brings your average cost down.

Lesson: Consider averaging down to lower your cost basis.

Lesson 34 – Moving to the sidelines

Sometimes the market is either extremely volatile or stuck in a tight trading range and it makes sense to hold off on trading and move to the sidelines. By moving to the sidelines your capital is no longer at risk from either extreme swings or stagnant periods that can produce exaggerated losses. It can also make sense to move to the sidelines when nothing you try seems to work and you simply need a time out.
Lesson: Take yourself out of harm’s way under certain circumstances.

Lesson 35 - When a trade is over, it's over

It really is true. When you complete a trade, there's no turning back the clock. You might make a great trade with a nice profit or you might have completed a trade with a significant loss. Whatever the case, once the trade is over, there's nothing more you can do about it. In fact, the best you can do is learn from the experience, either good or bad, and use that experience on future trades. But dwelling on a trade gone bad or getting too euphoric about a winning trade might cloud your judgment going forward. So, give yourself the appropriate congratulations on the winners and try not to beat yourself up too badly on the losers so you have a clear head for the next trade.

Lesson: Be thankful for the winners and accept the losers.

Power trading tip

It's so easy to dwell on a bad trade. Stand above the crowd and move on!
Lesson 36 - Closing versus intraday stops

An important step prior to entering into a trade is setting a stop loss in case the trade doesn't work out. Coming up with the correct stop loss involves a number of factors including whether it is a closing stop or an intraday stop. The value of considering a closing stop, which requires monitoring of the position right into the close, is that often stocks recover during the course of a day. So, using intraday stops doesn't allow for recovery late in the session. Thus, it is at least important to understand the difference between the two types of stops when formulating a trading plan.

Lesson: Have your stop loss strategy sorted out before entering a trade.

Lesson 37 - Don't ignore your losers

When a trade goes bad, the inclination is often to leave it alone and hope it recovers. This is a very bad idea. Ignoring a trade because it hasn't performed the way you wanted it to doesn't help your bottom line one bit. In fact, all it does is leave your precious capital tied up in a non-performing asset.
This is why you need to stick to your predetermined targets and stop losses unless something valid has changed and where it makes sense to hold the stock. Otherwise, face reality head on, get out of the position and look to replace it with another stock that has a greater chance to succeed.

**Lesson: Ignoring losers is a very bad idea.**

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**Power trading tip**

Ignoring bad decisions usually makes things worse. It's no different when trading, so face your losers head on!

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**Lesson 38 - Stop making the same mistakes**

Everyone who trades is going to make mistakes; they are unavoidable. But, making the same mistake over and over again is a sure way to heavy losses. This is where being completely objective comes in handy, so you can make whatever adjustments are necessary to avoid the same mistakes. It requires a disciplined mind set where you are willing to accept what you are doing wrong and to make the necessary corrections. Otherwise you aren't hurting anyone but yourself, and possibly those around you.
Lesson: Identify those areas you need to change and fix them.

Power trading tip

Everyone deserves a second chance, but not a fifth, sixth or seventh. Don't get lazy; minimize your mistakes.

Lesson 39 – Be aggressive when appropriate

Many traders find that there are a few times over the course of the year that provide the greatest opportunity to make serious money. This could be when the market breaks out of a slump or hits fresh highs from years back. Whatever the case, you should use these opportunities to be more aggressive than usual and until the positive market action runs its course, all along locking in nice juicy profits and ready to move back into conservative mode when the run is over.

Lesson: Take full advantage of those times when the market is hot.
Lesson 40 - Taking partial profits

Sometimes you may face a decision of whether or not to take profits on a trade while feeling the stock could go higher. On the one hand, you don’t want to lose the profits you already gained but on the other hand you have a strong reason to believe the stock could go higher. In these circumstances, consider selling a partial position, perhaps half, to lock in some profits. This way, if the stock goes higher, you continue to benefit and if it pulls back, you have reduced your cost basis and overall risk, a true win-win situation.

Lesson: It sometimes makes sense to lock in partial profits.

Lesson 41 - Trading in a flat market

Trying to trade successfully when the market is stagnant can be both frustrating and harsh on the pocket book. Why is this? It's because when the market becomes illiquid everyone is trying to get the same thing done when there aren't any takers. Accordingly, trying to unload a position becomes more difficult, and often to the point where it becomes a losing proposition and thus, should be avoided.
Lesson: Avoid trading aggressively in a flat market.

<table>
<thead>
<tr>
<th>Power trading tip</th>
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<tbody>
<tr>
<td>If you find yourself bored and looking for something to do, go fishing, or shopping, or golfing. Just don't blow your capital for no good reason.</td>
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</table>

Lesson 42 - Always be decisive and keep a level head

There are going to be times when the market is quiet but other times when there's a sudden jolt. When this happens, it is important that you keep a level head so you can make quick decisions. It is at times like these when you need to summon all of your internal strength and accumulated knowledge to make smart decisions. Instead of panicking, remain calm, knowing that you are about to make the right decisions.

Lesson: Remain calm and be decisive in times of distress.

Lesson 43 - Confidence based in reality

Confidence is a fine attribute in all walks of life; it even has a place in trading. For example, if you have taken the time to fully educate yourself in technical analysis, this should help to build your confidence that will allow you to make smart and
appropriate trading decisions. But, being overly confident without some basis in reality can lead to poor trading decisions. In other words, there always needs to be valid reasons for getting involved in a trade that are based in reality. Otherwise, you can have all of the confidence in the world but it won’t necessarily help your bottom line.

Lesson: Bolster your trading skills to build your confidence.

Power trading tip
You may have spent most of your life building up your confidence and for that you are to be commended. Just don't let your ego stand in the way of common sense when trading.

Lesson 44 - Double dip or not?

Sometimes after making a nice score on a trade, it is tempting to try to repeat the same results on the same stock shortly thereafter. It might be tempting because you've made a nice profit and think you can repeat what you just did even though circumstances may have changed. Sometimes that will work and especially if the stock is strong and in great demand. But, just as often you might find that trying to duplicate a successful trade on the same stock so quickly will backfire. The bottom
line is you need to have a very good reason to enter into every single trade, and not just because it worked before.

**Lesson: Double dipping only makes sense if there are valid reasons to make a trade.**

**Lesson 45 - Step aside when under siege**

There are likely to be times when you are trading when absolutely nothing goes right. You miss out on a great trading opportunity; you get involved in a trade that immediately goes against you; a position stops out the first day of a trade. When you find yourself flailing away and unable to do anything right, consider moving to the sideline and let things settle down before you begin trading again. It’s like a computer reset when all else fails; you reboot and everything gets back to normal. Just stop torturing yourself and come back in to the market when the reset button has been hit.

**Lesson: Take a break from the market when all else fails.**
Lesson 46 – Chasing a runaway hit

Sometimes a stock will take off and continue running for a period of time and all of the sudden you realize you've missed the ride. This might make you envious or angry and even to the point where you can't stand it anymore and you "must" get in. Then, right on cue, the stock stops going up, and you've bought at the top, only to then realize you're about to lose money. There's a way to avoid that. Don't chase runaway stocks. In virtually every case they will hit a peak and pullback to a more reasonable level and your patience will be rewarded.

Lesson: Avoid entering stocks that have already made a nice run.

Lesson 47 – Never try to anticipate a break out

When a stock nears important resistance there are traders who are waiting for that resistance level to be cleared so they can participate in the upside that often accompanies a break out. However, some traders try to get in on the action before a break-out actually occurs, hoping to "beat the crowd" and profit in the process. Trying to predict a break-out before it occurs can easily end in failure as a key level of resistance is
generally hard to penetrate. Instead, bide your time and wait for the break-out to occur before you put your money to work.

**Lesson: Jumping in prematurely on a break-out candidate often results in unnecessary losses.**

**Lesson 48 - ETF’s or stocks?**

Some investors like to trade individual stocks while others like to trade Exchange Traded Funds, or ETF’s. Trading individual stocks pins you to a specific stock's performance while trading ETF’s helps to spread out the risk. Generally, trading individual stocks creates the opportunity for larger gains and losses where trading ETF’s might be seen as more conservative. A broad trading strategy could include both individual stocks and ETF’s depending on your risk tolerance level and what you are trying to achieve.

**Lesson: Both individual stocks and ETF’s should be considered as part of your trading strategy.**
**Lesson 49 - Inverse ETF’s**

When the market is in a clear downtrend one way to try to make money is by trading inverse ETF’s. Standard ETF’s are meant to capture profits when the market is going higher where inverse ETF’s are meant to capture profits when the market is going lower. Where trading individual stocks short in a retirement type account is prohibited, reverse ETF’s can be used as a vehicle to try to profit when the market is weak.

**Lesson: Consider trading inverse ETF’s to capture profits in a weak market environment.**

**Lesson 50 - Patience above all**

It is true; patience is a virtue and it can also be a lifesaver and moneymaker in the market as well. You might be tempted to enter into a trade while knowing deep down inside that there might be a good reason to hold off. Maybe the stock is overbought. Or maybe there's additional room to move lower. Whatever the case, be smart even when you might be tempted to chase a stock when there's no reason to do so. Instead, let patience take over and enter the trade on your terms.
Lesson: Patience in the market is almost always rewarded.

Power trading tip

You're not likely to go out of your way to put yourself in harm's way. Why not go out of your way to call the shots to your benefit?

Lesson 51 - Put the odds in your favor

There are so many important things to remember when trading stocks, including learning to read charts, understanding volume trends, knowing when a company reports earnings, knowing the best price to enter a trade, setting a price target and stop losses, to name just a few. Each one of these on its own can make a difference between a successful and unsuccessful trade, so why not do everything possible to put the odds in your favor? Just knowing those key signs and indicators that require the most attention will help to give you an edge.

Lesson: Go out of your way to understand which signs and indicators are to be respected.
Lesson 52 - To short, or not to short?

Most people involved in the stock market trade on the long side, betting a stock will go higher. But, you can make money shorting a stock as well if you are correct in your assessment and the stock goes lower. However, in fact, the market goes up more than it goes down, which means right off the bat the odds are stacked against you. Also, there are rules and restrictions that make shorting more difficult than going long. If you do decide to short stocks, do it when the market trend is decisively lower. Trying to short in an up trending market is difficult and can be frustrating and hard on the pocket book. Instead, unless you are highly skilled at shorting, consider stepping to the sideline when the market is weak and waiting for appropriate moments to go long.

Lesson: Unless you've got the proper skills, stick to the long side.

Lesson 53 - When in a slump, take what you can get

Almost everyone who trades ends up in a slump where nothing they do comes out right. It's going to happen. Sometimes the best way to deal with this is to try to snap a losing streak by taking
even the tiniest of profits. In other words, if you have a series of losing trades and the next one starts out right, instead of going for a home run, consider taking your money off the table to prove you can make a successful trade. It can be very therapeutic.

**Lesson:** Sometimes the smallest profit can turn the tide.

**Lesson 54 – Outsmarting the market**

The stock market opens Monday through Friday at 9:30 am eastern and closes at 4 PM eastern, excepting holidays. During the course of a trading day, billions of shares trade hands. There are many events affecting the market every day, including world news, economic reports, earnings reports, and sudden developments. All of this gets taken into consideration during the course of the day, and this is what makes the market. Remember that.

**Lesson:** Don't even think about outsmarting the market.

**Power trading tip**

There's often a noticeable flow to the market action and there's a reason for this. Go ahead and be a maverick if you want, just not when you are trading!
Lesson 55 - Measuring success

Exactly what does it mean to be successful in the market? Naturally, increasing your portfolio is a measure of how well you have done, but what exactly are you trying to accomplish; 10% growth in a year? 15%? 5%? This is actually an important question to answer because it can help guide you in your decision-making process. For example, if you have a goal to achieve 10% per year, and you get to that level quicker than you think, are you then going to increase your goal or be satisfied and move to the sidelines? Whatever you decide to do, just remember that it could impact your next trading move.

Lesson: If you set trading goals make sure you track your performance.

Lesson 56 - Early morning trading

The major US stock exchanges open the same time each day. Traders are often eager to get involved in the market right out of the gate. However, in most cases you should avoid jumping into positions right after the market has opened and into what many refer to as “amateur hour.” Instead, it makes sense to wait and see how the market opens, let things settle in, and get some
feel for market direction. You shouldn’t worry about missing out on too much; remember, there’s still plenty of time left in the trading day.

**Lesson: Avoid being overly aggressive at the market open.**

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<thead>
<tr>
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<td>If you find yourself raring to go, guns a-blazing into the market open, count to 100 slowly.</td>
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**Lesson 57 – After hours trading**

After hours trading can serve a purpose when you have an urgent need to exit a position or when an unexpected profit opportunity presents itself when the market is closed. However, in general, after hours trading increases your vulnerability and when trades can be more easily manipulated. Thus, as a general rule, after hours trading should be avoided except in those cases where you have the ability to lock in a sudden and sizeable profit or if you need to exit an open position.

**Lesson: After hours trading should generally be avoided.**
Lesson 58 - Learning to breathe

Breathing is an essential part of one’s daily existence, and learning to breathe controllably under stressful conditions can be healing and soothing. For example, when a trade suddenly goes against you, it can be easy to panic and not know what to do. This could be a good time to take a deep breath, exhale and repeat as necessary while putting you in a better state of mind to make a smart decision. It won’t necessarily change the fact that you’re facing a losing trade, but thinking more clearly will give you more options to choose from.

Lesson: Take a deep breath when feeling stressed out.

Lesson 59 - Be aware of key economic reports

Economic reports are a key part of the market landscape. Employment reports, inflation reports, manufacturing reports, Federal Reserve releases, all types of reports that can quickly have a positive or negative impact on the market. If you have open positions, you need to know when key reports are going to be released, especially those that come out before the market opens, and when you might not have adequate time to react. Just
make sure you know when a key report is going to be released so you can decide if you want to lighten up before the report is made public.

Lesson: Always know when key economic reports will be released.

Lesson 60 - Avoid getting involved in a trade prior to earnings dates

If you are trading stocks, and if you don't classify yourself as a gambler, then listen to this one carefully. Before you buy a stock, you should find out when it will be reporting its quarterly earnings. This is really simple and critically important because once earnings results are released it can have a dramatic impact on a stock. For example, you might buy a stock and have a price target in mind, and before it hits that target find out the company is getting ready to release an earnings report on that stock. The problem here is that no one except corporate insiders knows what those earnings might look like; they could be strong, they could be weak, and there's no telling how the market will react to the specific numbers. So, you are subject to the market's response, and it can totally screw up your trade, putting you in a less than favorable position. So,
unless you have a gambler's mentality and stomach, avoid being involved in a trade where an earning’s release is imminent.

Lesson: Always know when a company you are thinking about trading in will report its quarterly earnings.

Lesson 61 - Reward yourself for a great trade

Generally, when you make a successful trade, you should pat yourself on the back and look for the next best opportunity. But, every once in a while, you will execute a Great trade, one that you are especially proud of. When that does happen to you on that rare occasion, consider doing something special for yourself that recognizes your accomplishment. Then, it will be back to business as usual as you search for the next successful trade.

Lesson: Reward yourself for outstanding performance.

**Power trading tip**

You probably beat yourself up enough in everyday life. Take the time to recognize your finest moments in trading as they don't come along that often.
**Lesson 62 - You aren't alone**

Trading stocks can be a lonely proposition, especially when things aren't going your way. However, while it won't do anything to help your pocket book, at least know there are millions of other individuals just like you who are experiencing some of the same feelings. This way, when you make a bad trade, you know you aren't alone.

Lesson: Sometimes there is consolation in numbers.

**Lesson 63 - Taking a break**

Sometimes you might find that your trading is not satisfying either emotionally or financially. In either case this might be a signal that you need to take a break. It might be for a day or could be much longer. The point is that if you are struggling to find answers and in the process are unhappy you might be better off to move to the sidelines until you get your mojo back.

Lesson: Taking a break can help to clear your mind.
Lesson 64 - Options aren't for everyone

A lot of individuals like the idea of trading options because you can take control of a share of stock at a fraction of what it would cost to actually buy the stock. This sets up the false belief that you are in a much better position to profit because you have fewer dollars at risk but that is not really true. For example, you might be able to get access to a share of stock for one-tenth of the cost of buying that stock outright, so putting $1 at risk rather than $10. However, the major difference in buying an option versus a share of stock is that when you buy an option you have a specific time-frame to work with but when you buy a share of stock you don't have that same time constraint. This means that if things don't work out during that specific time-frame you have to work with, you could end up losing 100% of the amount you put into the option trade. So, while one would argue that losing $1 on a trade rather than having to put up $10 to control the same number of shares is a better deal, it isn't at all, because if you end up losing all of that $1 it is still
a 100% loss of what you put in, and on a percentage basis, it doesn't get any worse than that.

Lesson: Options can be a sucker’s game unless you are highly skilled in options trading.

Lesson 65 - Dump the losers

Here’s a follow-on that you should listen to carefully. If you find yourself hanging on to losing positions for any period of time, consider getting out of those positions so you can put your money to work in better prospects. As we’ve discussed before, no one likes to take a loss but it just doesn’t make sense to hold on to those stocks that are dead in the water. It may pain you for a day or two, but you may actually be relieved to get those losers out of your system, and especially if you deploy those funds into another position that starts to make you money.

Lesson: Sometimes it makes sense to get a fresh start.
Lesson 66 – Chasing a gap

Sometimes a stock will make a quick and substantial move higher or lower when the market opens, what might be known as gapping up or down. When this happens, it can create a lot of excitement, or angst. At the same time, this sudden and substantial move higher or lower can come to a grinding halt, with a stock quickly losing its energy as it reverses to the downside or upside. Accordingly, you should resist the temptation to join in on the excitement of a gap and instead wait for the stock to settle down. You will then be in a better position to determine if there is life remaining in the stock after the excitement has died down, and resulting in a more rational decision.

Lesson: Avoid chasing gaps.

Lesson 67 – Trading on Margin

There are times when it might make sense to trade on margin, giving you more buying power than you have on your own. However, trading on margin should not be the norm for most individuals. Instead, it should be used sparingly and wisely and when the market is less susceptible to sudden and violent swings that
could result in unwanted margin calls, and forcing you to make avoidable and costly trading decisions. Instead, carefully pick and choose when it makes sense to trade on margin so you aren’t unnecessarily backed into a corner.

**Lesson: Use margin sparingly and only in favorable market conditions.**

**Power trading tip**

Using leverage might be appropriate on rare occasions but if you come to rely on margin to help you boost your results you will put yourself in harm's way.

**Lesson 68 - Trading Index ETF’s**

If you are considering trading ETF’s, you might want to keep it simple and focus on those ETF’s corresponding to the major indexes. For example, you can trade the SPY which is intended to mirror the S&P, the DIA which tracks along with the Dow and the QQQ which moves along with the NASDAQ. These are all “long” ETF’s so if the corresponding index moves higher, you can profit. If the corresponding index moves lower, your ETF would move lower as well. There are also “inverse” ETF’s intended to profit if the market moves lower that are available as well.
These can be traded in your retirement account as well allowing you to take advantage of a falling market.

**Lesson:** Consider trading major index ETF’s to keep things simple.

**Lesson 69 – Trading Juiced ETF’s**

There are ETF’s that are designed to move quicker than standard ETF’s for those individuals who are willing to take on additional risk for higher reward potential. These ETF’s are often called Juiced ETF’s and they can move 2 to 3 times faster than a standard ETF. Under the right circumstances these ETF’s can be highly profitable but can eat into capital quickly as well. These ETF’s should be considered only by those individuals who are skilled traders as they can move rapidly, and especially in a volatile market. These types of ETF’s are often prohibited in retirement accounts as they are considered too risky for the average individual.

**Lesson:** Avoid trading juiced ETF’s unless you are a skilled trader.
Lesson 70 – Understand the Volatility Index – The “VIX”

Simply put, the Volatility Index, the VIX, measures market fear. A higher-than-normal VIX, generally a reading in excess of 20, tells you that traders are more leery about being in the market. A lower-than-normal VIX, generally lower than 20, tells you that traders are more comfortable being in the market. The VIX can be used as an aid to help you figure out when the market is too fearful or too complacent. For example, an extremely high VIX might be a signal the market is bottoming since fear levels are elevated, while an extremely low VIX might signal the market is topping since no fear exists. It’s just one signal you might be able to use to your advantage.

Lesson: Keep your eye on the VIX to help you determine market direction.

Lesson 71 – Holding positions into the weekend

Quite often, day traders will make it a point to be out of all positions by day’s end. However, many other traders can end up holding positions for extended periods of time. Sometimes it becomes a harder decision when Friday comes along, and especially in a rocky market and when a lot of information can
be reported over the weekend. In addition, Monday’s have a history of being the worst trading day of the week, so a bit of added risk to be considered. You just want to be more nimble into Friday’s close, and especially if the market is nearing key support, as those few days when the market is closed can sometimes lead to nervousness into Monday’s open.

Lesson: Assess the risk of holding positions into Monday.

Lesson 72 - Making a quick exit

You are likely to be involved in trades that immediately go against you. This can happen no matter how much homework you’ve done, how great a stock might look, how great the market might be. When this happens, you might want to consider licking your wounds and exiting the trade. Maybe you give yourself a little room, but not too much. Otherwise, you might find yourself getting frustrated and ultimately exiting the position an even bigger loser.

Lesson: Consider cutting your losses quickly on certain trades.
Lesson 73 - Cash IS a position

Many traders think there are only two ways to be active in the market; on the long side or on the short side. But, there’s a third way to have a position in the market and that is to be in cash. Being in cash requires a conscious decision, just like deciding to be long or short. In fact, deciding to be in cash can be one of the smartest strategic decisions you can make. For example, in an uncertain or highly volatile market your capital might be best protected by being in cash. And, in almost every case, having at least some cash available for sudden opportunities is almost essential.

Lesson: Consider being in cash as important as being long or short

Power trading tip

It's not very satisfying sitting in cash, and especially when yields are low. But, watching your cash go down the drain in a rocky market may literally make you sick!

Lesson 74 - Living to trade another day

There are going to be days when everything goes your way and others when the complete opposite happens. It's all a part of the trading universe. But, it is easy to get derailed, unless
you work hard at keeping the really bad days to a minimum. You already know that you won't succeed on every trade but that doesn't mean you can't try your hardest to make those days the exception rather than the norm. Just be smart and keep your mistakes to a minimum to greatly increase your chances to succeed.

**Lesson: Use all of your knowledge and power to live to trade another day.**

**Lesson 75 - Buy and hold no more**

Most investors have been taught that you should buy stocks or mutual funds, leave them alone for years, and reap the benefits. In fact, this has worked quite nicely in the past but the investing landscape has changed. New technology makes trading lightning fast; hedge funds are more and more active; world events can render our market helpless; the list goes on and on. The point is that you need to be ready to react to an ever-changing market where things can literally change in a day. So, instead of latching on to an old investment style, stay in tune with the times.

**Lesson: Instead of buy and hold adapt to the times.**
Lesson 76 - Putting it all together

It’s a lot easier talking about exactly what to do when trading than the actual successful execution itself, and when the market is open and emotions are running high. But, if you continuously remind yourself of the most important things to master and put them to use, it can make a very big difference. If I could name the few lessons that might stand above the others it would be discipline, honoring stop losses and taking profits on successful trades. Mastering those three lessons alone could have a material impact on your bottom line.

Lesson: Master at least those lessons where the impact could be the greatest.

Lesson 77 - Never stop learning

There is a saying everyone is familiar with; knowledge is power. This is true when trading as well; the more you know, the greater your chances for success. If this is true, then you’ll want to continuously educate yourself so you can stay ahead of the curve. Remember earlier when we talked about assembling your trading team; this can include working with those who can help
you with your education. Whether it’s learning more about technical analysis, reading charts, learning to stay disciplined, it’s all going to pay off in the long term. I encourage you to revisit these 77 lessons as often as you can so you become the very best trader possible.

Lesson: Take the time to learn all you can.