Get Rich or Go Broke Trying: A brief introduction to Stock trading

Harold Johnson

"…..You Miss 100% of the shots you don't take.

--Wayne Gretzky

-Michael Scott"

Harold Johnson

Outline

- What are stocks? What is a trader? Why would anyone trade a stock?...Isn’t this just gambling?(No its like “predicting the weather!”)
- Supply and Demand
- Where does stock trading happen? Who can trade stocks?
- Are there different types of traders? (Day trading; Swing trading; Long Term Investing)
- Can you only buy stocks? What is short selling? Who is involved in buying/selling? (Who are the market makers???)
- What are the risks involved with buying/selling/short selling? (i.e. How can I go broke trying?)
- Trading Psychology

What Are Stocks?

- A stock (also known as "shares" and "equity”) is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings.

- A holder of stock (a shareholder) has a claim to a part of the corporation's assets and earnings.

What Is Trading?

- Engaging in the buying and selling of financial assets in any financial market, either for an individual or on behalf of another person or institution.

- Stock prices fluctuate and traders aim to make money from buying when prices are low and selling when prices are high (And vice versa with short selling!)

- A “trader” typically works for a financial institution (i.e. hedge fund or a bank), in which case he trades with the company's money, credit, and is paid a combination of salary and bonus…or he works for himself!

The Stock Market

- The amalgamation of markets and exchanges where the regular activities of buying, selling and issuance of shares of publicly held companies take place. NYSE, NASDAQ, CBOE (Chicago Board Options Exchange)

- Stock markets provide a secure and regulated environment where market participants can transact in shares and other eligible financial instruments with confidence and with low operational risk.

- Indices: Dow Jones Industrial Average (DJIA), S&P 500, Wilshire 5000, Russell 2000


NYSE
NYSE
NYSE
NYSE
NYSE
CNBC
GTS
NYSE
GTS
NYSE
POW-MIA

Supply and Demand

- The law of supply and demand affects the stock market by determining the prices of individual stocks.

- Low supply and high demand generally causes stock prices to increase; In contrast, high supply and low demand causes stock prices to decrease.

- Generally supply and demand work against each other to find an equilibrium point, which is the price at which stocks are sold.

“Why would anyone trade a stock? This sorta seems like gambling…”

- To borrow a common analogy: Predicting the stock market is much like predicting the weather
- For most traders, stock market *is* effectively gambling (probably 90+%)! But for experienced and successful traders, its far more educated guesswork.
- However, no one can be a prophet! (Back to this later)

Where Does Stock Trading Happen?

- The floor of stock exchanges (i.e. the NYSE in Manhattan)
- Brokers execute orders on behalf of their clients(traders); clients don’t ever need to be there.
- As a trader, one only ever sees their computer; even if you’re a hedge fund trader this is true.
- ….and thus anyone *CAN* participate in stock trading

Day Trading

- Frequently in and out of trades. Short time scales (1 market day or less)

- Pattern day trader is a Financial Industy Regulatory Authority (FINRA) designation for a stock market trader who executes four or more day trades in five business days

- Day traders watch screens all day, hoping to catch significant short term moves in the market for profit

Swing Trading/Trend trading

- Usually trade on short timescales but not short enough to be pattern day traders. Look for moves anywhere from a few days to a few weeks but typically not longer
- Volatility is crucial! Fewer trades in general, less opportunity (not always a bad thing)
- Swing and Trend traders are two sides of a coin
- These traders don’t sit in front of screens all day. Usually have unrelated full-time careers or hobbies

Long Term Trading (Investing)

- “Buy and Hold”

- These people are interested in ‘stable’ (read: expensive) stocks from well-established companies (apple, amazon, etc.). They expect the stocks to slowly increase in value over time.

- When fast growing companies become large companies and the stock loses its volatility it switches hands from the short term traders to the big investors, who will then hold the stock for a long time

Many Ways To Play

- High frequency trading (Fast computers (close in physical distance to the actual stock exchanges) used by banks/firms, algorithms, auto market makers)
- Trading chart patterns
- Looking for set ups
- Buy and Hold (Investing)
- Speculating on Events
- Momentum Strategies
- More…

Fundamental Analysis Vs. Technical Analysis

- Fundamental: The value of a stock may be different than the actual price of a stock. Therefore I will research the company/industry and find candidates based on their potential or hidden value.

- Technical: The value of a stock is its quoted price. All the information I need to analyze a stock is contained within its quoted price, Including “insider” information which I don’t need to know.

- Traders often fall into either school but its probably best to take a little from both ~~(LOL, Technical Analysis is better. srsly)~~

Short Selling

- Just as one can buy stocks with the expectations that prices will rise, one can do so while expecting that prices will fall!
- A short sell is a loan of some number of shares at a given price. The short seller hopes that the price of the stock will fall, so that he can later buy this stock at a lower price. The loaned stock is returned to the loaner and the trader gains the difference in price.
- Short selling is inherently more risky but easily as profitable as buying (often moreso, just by the nature of emotionally driven runs)


Michael Burry, M.D.

Who is involved in buying/selling?

- Supply and Demand: When someone buys there is always a seller on the other end.
- Market Makers: How is it possible to always be able to do a trade?
- "Making a market" means a willingness to buy and sell the securities of a defined set of companies to broker-dealer firms that are member firms of that exchange. (Bid/Ask spread)
- Market making enables the smooth flow of financial markets. Help keep the market liquid.
- Brokerage houses tend to deal with market makers for individuals.

Market Makers do want to rip you off

Example: 1000 shares

Market Makers Buy	Market Makers Sell
You Buy	You Sell
$10.00	$12.00

Spread = $2.00 (They pocket this)

Market makers compete against each other to sell you stocks. The general supply/demand principle says that the greater number of market makers, the ‘tighter’ the spread, cheaper transactions for you

3 Basic Questions

- How do you get in?

- How much to risk?

- How do you get out?

How Can I Go Broke Trying?

- New traders often see their capital eaten up by trade commissions

- Letting your losers run and taking early profits from your wins!

- When you’re wrong, run like the wind!

Trading Psychology

- "Every market has a rhythm and its our job as traders to get in sync with that rhythm" –(Unknown trader)
- Minimize Risk, Protect Capital (Don't Chase Runs!)
- "I can only be a diagnostician, never a prophet" – (Nicholas Darvis)
- Focus on maximizing gains rather than the number of wins. More important to let your winners run big than to win often!
- Stocks are very much like people; each have distinct personalities!
- Ignore Advice/Rumors! (Lots of salesman out there, <u>especially popular financial magazines and newsletters!</u>)

“I still think stock trading is gambling”

- Well, you’re wrong. ~~stack dat cheese, cuh!~~
- Anybody but not everybody! In fact, most shouldn’t. Becoming a successful trader takes an awful lot of discipline.
- Not a get rich quick scheme
- *In this presenter’s humble opinion*: Day trading isn’t for busy scientists; Swing Trading is doable; Long term investing should (more or less) be done by every family

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