Glossary
How Day Trade for A Living
by Andrew Aziz

A

Alpha stock: a Stock in Play, a stock that is moving independently of both the overall market and its sector, the market is not able to control it, these are the stocks day traders look for.

Ask: the price sellers are demanding in order to sell their stock, it's always higher than the bid price.

Average daily volume: the average number of shares traded each day in a particular stock, I don't trade stocks with an average daily volume of less than 500,000 shares, as a day trader you need sufficient liquidity to be able to get in and out of the stock without difficulty.

Average relative volume: how much of the stock is trading compared to its normal volume, I don't trade in stocks with an average relative volume of less than 1.5, which means the stock is trading at least 1.5 times its normal daily volume.

Average True Range/ATR: how large of a range in price a particular stock has on average each day, I look for an ATR of at least 50 cents, which means the price of the stock will move at least 50 cents most days.

Averaging down: adding more shares to your losing position in order to lower the average cost of your position, with the hope of selling it at break-even in the next rally in your favor, as a day trader, don’t do it, do not average down, ever, a full explanation is provided in this book, to be a successful day trader you must avoid the urge to average down.

B

Bear: a seller or short seller of stock, if you hear the market is bear it means the entire stock market is losing value because the sellers or short sellers are selling their stocks, in other words, the sellers are in control.

Bearish candlestick: a candlestick with a big filled body demonstrating that the open was at a high and the close was at a low, it tells you that the sellers are in control of the price and it is not a good time to buy, Figure 6.1 includes an image of a bearish candlestick.

Bid: the price people are willing to pay to purchase a stock at a particular time, it’s always lower than the ask price.

Bid-ask spread: the difference between what people are willing to pay to purchase a particular stock and what other people are demanding in order to sell that stock at any given moment, it can change throughout the trading day.

Black box: the top secret hidden computer programs, formulas and systems that large Wall Street firms use to manipulate the stock market.

Broker: the company who buys and sells stocks for you at the Exchange, because day trading requires fast order execution, you really must use what is called a direct-access broker, conventional online brokers (also known as full-service brokers) provide considerably more investment advice, tax tips, retirement planning and such, but generally do not offer the necessary fast order execution, and are therefore more suited for investors and retail swing traders.

Bull: a buyer of stock, if you hear the market is bull it means the entire stock market is gaining value because the buyers are purchasing stocks, in other words, the buyers are in control.

Bull Flag: a type of candlestick pattern that resembles a flag on a pole, you will see several large candles going up (like a pole) and a series of small candles moving sideways (like a flag), which day traders call consolidating, you will usually miss the first Bull Flag but your scanner will alert you to it and you can then be ready for the second Bull Flag, you can see an example of a Bull Flag formation in Figure 7.3.

Bullish candlestick: a candlestick with a large body toward the upside, it tells you that the buyers are in control of the price and will likely keep pushing the price up,

Figure 6.1 includes an image of a bullish candlestick.

Buying long: buying a stock in the hope that its price will go higher.

Buying power: the capital (money) in your account with your broker plus the leverage they provide you, for example, my broker gives me a leverage of 4:1, if I have $25,000 in my account, I can actually trade up to $100,000.

C

Candlestick: a very common way to chart the price of stocks, it allows you to easily see the opening price, the highest price in a given time period, the lowest price in that time period and the closing price value for each time period you wish to display, some people prefer using other methods of charting, I quite like candlesticks because they are an easy-to-decipher picture of the price action, you can easily compare the relationship between the open and close as well as the high and the low price, you can see examples of bearish and bullish candlesticks in Figure 6.1.

Chasing the stock: wise day traders never chase stocks, you chase a stock when you try to purchase shares while the price is increasing significantly, successful day traders aim to enter trades during the quiet times and take their profits during the wild times, when you see a stock surging up, you patiently wait for the consolidation period, patience truly is a virtue!

Chatroom: a community of traders, many of which can be found on the Internet.

Choppy price action: stocks trading with very high frequency and small movements of price, day traders avoid stocks with choppy price action, they are being controlled by the institutional traders of Wall Street.

Close: the last hour the stock market is open, 3 to 4 p.m. New York time, the daily closing prices tend to reflect the opinion of Wall Street traders on the value of stocks.

Consolidation period: this happens when the traders who bought stocks at a lower price are selling and taking their profits while at the same time the price of the stock is not sharply decreasing because buyers are still entering into trades and the sellers are not yet in control of the price.

D

Day trading: the serious business of trading stocks that are moving in a relatively predictable manner, all of your trading is done during one trading day, you do not hold any stocks overnight, any stocks you purchase during the day must be sold by the end of the trading day.

Doji: an important candlestick pattern that comes in various shapes or forms but are all characterized by having either no body or a very small body, a Doji indicates indecision and means that a fight is underway between the buyers and the sellers, you can see examples of Doji candlesticks in Figure 6.8.

E

Entry point: when you recognize a pattern developing on your charts, your entry point is where you enter the trade.

Exchange-traded fund/ETF: an investment fund traded on the Exchange and composed of assets such as stocks or bonds.

Exit point: as you plan your trade, you decide your entry point, where you will enter the trade, and you decide where you will exit the trade, if you do not exit properly you will turn a winning trade into a losing trade, whatever you do, don't be stubborn, if a trade goes against you, exit gracefully and accept a loss, don't risk even more money just to prove a point, the markets can be unpredictable.

Exponential Moving Average/EMA: a form of moving average where more weight is given to the most currently available data, it accordingly reflects the latest fluctuations in the price of a stock more than the other moving averages do.

F

Float: the number of shares in a particular company available for trading, for example, in April 2019, Apple Inc. had 4.46 billion shares available.

Forex: the global foreign exchange market where traders – but not day traders – trade currencies.

Fundamental catalyst: this is what you as a day trader are looking for, some positive or negative news associated with a stock such as an FDA approval or disapproval, a restructuring, a merger or an acquisition, something significant that will impact its price during the trading day.

Futures: Futures trading is when you trade a contract for an asset or a commodity (such as oil, lumber, wheat, currencies, interest rates) with a price set today but for the product to not be delivered and purchased until a future date, you can earn a profit if you can correctly predict the direction the price of a certain item will be at on a future date, day traders do not trade in Futures.

G

Gappers watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities, the final version of your watchlist generally has only two, three or four stocks on it that you will be carefully monitoring when the market opens, also called simply your watchlist.

Guerrilla trading: what day traders do, it’s like guerrilla warfare, you wait for an opportunity to move in and out of the financial battlefield in a short period of time to generate quick profits while keeping your risk to a minimum.

H

High frequency trading/HFT: the type of trading the computer programmers on Wall Street work away at, creating algorithms and secret formulas to try to manipulate the market, although HFT should be respected, there's no need for day traders to fear it.

High relative volume: what day traders look for in Stocks in Play, stocks that are trading at a volume above their average and above their sector, they are acting independently of their sector and the overall market.

Hotkey: a virtual necessity for day traders, key commands that you program to automatically send instructions to your broker by touching a combination of keys on your keyboard, they eliminate the need for a mouse or any sort of manual entry, high-speed trading requires Hotkeys and you should practice using them in real time in a simulator before risking your real money, for your reference I've included as Figure 5.4 a listing of my own Hotkeys.

I

If-then statement/scenario: before the market opens and before you do an actual trade, you should create a series of if-then statements (or if-then scenarios) to guide you in your trade, for example, if the price does not go higher than ABC, then I will do DEF, Figure 9.2 is an example of some if-then statements/scenarios that I have marked on a chart.

Illiquid stock: a stock that does not have sufficient volume traded during the day, these stocks are hard to sell and buy without a significant slippage in price.

Indecision candlestick: a type of candlestick that has similarly sized high wicks and low wicks that are usually larger than the body, they can also be called spinning tops or Dojis and they indicate that the buyers and sellers have equal power and are fighting between themselves, it's important to recognize an indecision candlestick because it may very well indicate a pending price change, you can see examples of indecision candlesticks in Figures 6.6 through 6.8.

Indicator: an indicator is a mathematical calculation based on a stock's price or volume or both, you do not want your charts too cluttered with too many different indicators, keep your charts clean so you can process the information quickly and make decisions very quickly, almost all of the indicators you choose to track will be automatically calculated and plotted by your trading platform, always remember that indicators indicate but do not dictate, Figure 5.2 is a screenshot of the type of chart I use with my indicators marked on it.

Institutional trader: the Wall Street investment banks, mutual and hedge fund companies and such, day traders stay away from the stocks that institutional traders are manipulating and dominating (I'll politely call that 'trading' too!).

Intraday: trading all within the same day, between 9:30 a.m. and 4 p.m. New York time.

Investing: although some people believe investing and trading are similar, investing is in fact very different from trading, investing is taking your money, placing it somewhere, and hoping to grow it in the short term or the long term.

L

Lagging indicator: these are indicators that provide you with information on the activity taking place on a stock <u>after</u> the trade happens.

Leading indicator: a feature of Nasdaq Level 2, it provides you with information on the activity taking place on a stock <u>before</u> the trade happens.

Level 2: successful day trading requires access to the real time Nasdaq TotalView Level 2 data feed, it provides you with the leading indicators and information on the activity taking place on a stock before the trade happens as well as important insight into a stock's price action, what type of traders are buying or selling the stock and where the stock is likely to head in the near term, Figure 5.1 is an image of a Level 2 quote.

Leverage: the margin your broker provides you on the money in your account, most brokers provide a leverage of between 3:1 and 6:1, a leverage of 4:1, for example, means if you have $25,000 in your account, you have

$100,000 of buying power available to trade with.

Limit order: an instruction you give to your broker to buy or sell a specific stock at or better than a set price specified by you, there is a chance the limit order will never be filled if the price moves too quickly after you send your instructions.

Liquidity: successful day traders need liquidity, there must be both a sufficient volume of stock being traded in a particular company and a sufficient number of orders being sent to the Exchanges for filling to ensure you can easily get in and out of a trade, you want plenty of buyers and plenty of sellers all eyeing the same stock.

Long: an abbreviated form of “buying long”, you buy stock in the hope that it will increase in price, to be “long 100 shares AAPL” for example is to have bought 100 shares of Apple Inc. in anticipation of their price increasing.

Low float stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock’s price, the stock’s price is very volatile and can move fast, most low float stocks are under $10, day traders love low float stocks, they can also be called micro-cap stocks or small cap stocks.

M

Margin: the leverage your broker gives you to trade with, for example, if your leverage is

4:1 and you have $25,000 in your account, your margin to trade with is $100,000, margin is like a double-edged sword, it allows you to buy more but it also exposes you to more risk.

Margin call: a serious warning from your broker that you must avoid getting, your broker will issue you a margin call if you are using leverage and losing money, it means your loss is equal to the original amount of money in your account, you must either add more money to your account or your broker will freeze it.

Marketable limit order: an instruction you give to your broker to immediately buy or sell a specific stock within a range of prices that you specify, I use marketable limit orders when day trading, I generally buy at "ask+5 cents" and I sell at "bid-5 cents".

Market cap/market capitalization: a company's market cap is the total dollar value of its float (all of their shares available for trading on the stock market), for example, if a company's shares are worth $10 each and there are 3 million shares available for trading (a 3 million share float), that company's market cap is $30 million.

Market maker: a broker-dealer that offers shares for sale or purchase on the Exchange, the firm holds a certain number of shares of a particular stock in order to facilitate the trading of that stock at the Exchange.

Market order: an instruction you give to your broker to immediately buy or sell a specific stock at whatever the current price is at that very moment, I'll emphasize the phrase “whatever the current price is”, the price might be to your benefit, it very well might not be though.

Medium float stock: a stock with a medium float of between 5 million and 500 million shares, I mostly look for medium float stocks in the range of $10 to $100 to trade, many of the strategies explained in this book work well with medium float stocks.

Mega cap stock: a stock with a huge supply of shares, for example, Apple Inc. had 4.46 billion shares available for trading in April 2019, their stock prices are generally not volatile because they require significant volume and money to be traded, day traders avoid these types of stocks.

Micro-cap stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock’s price, the stock’s price is very volatile and can move fast, most micro-cap stocks are under $10, day traders love micro-cap stocks, they can also be called low float stocks or small cap stocks.

Mid-day: 11 a.m. to 3 p.m. New York time, the market is generally slow at this time with less volume and liquidity, it’s the most dangerous time of the day to be trading.

Moving average/MA: a widely used indicator in trading that smooths the price of a stock by averaging its past prices, the two basic and most commonly used MAs are the Simple Moving Average (SMA), which is the simple average of a stock over a defined number of time periods, for example 1-minute, 5-minute, or daily charts, and the Exponential Moving Average (EMA), which gives more weight to more recent prices, the most common applications of MAs are to identify the trend direction and to determine support and resistance levels, I use 9 EMA, 20 EMA, 50 SMA and 200 SMA on all of my charts, your charting software will have most of the types of MAs already built into it.

O

Open: the first 1.5 hours the stock market is open, 9:30 to 11 a.m. New York time.

Opening range: when the market opens, Stocks in Play will often experience what I call violent price action, heavy trading will impact the price of the stock and you should be able to determine what direction the price is heading towards and whether the buyers or sellers are winning, in the past I only traded an opening range breakout at the 5-minute opening range, but now I am more in favor of the 15-minute or 30-minute opening range, the longer the time frame, the less volatility you can expect compared to the 5-minute range.

Options: a different type of trading, it’s trading in contracts that gives a person a right, but not a duty or requirement, to buy or sell a stock at a certain price by a specific date.

Over-the-counter (OTC) market: most day traders do not trade in the OTC market, it’s a specific market used to trade in such items as currencies, bonds and interest rates.

P

Pattern Day Trade Rule: a regulation in the United States that requires day traders in the United States to have at least $25,000 in their account unless they use a non-U.S.-based broker, it does not impact day traders who live in Canada, England, or any other country other than the United States, with that said, other countries might very well enforce similar rules and regulations, before commencing day trading you should contact your local brokers and ask about the minimum requirements for day trading in your jurisdiction.

Penny stock: the shares of small companies that can trade at very low prices, the prices can be very easily manipulated and follow no pattern or rule whatsoever, fraud is rampant in penny stock trading, day traders do not trade penny stocks.

Position sizing: refers to how large of a position you can take per trade, it's a technique and skill that new traders must develop but, please remember one of my rules, you must never risk more than 2% of your account in any one trade.

Pre-market trading: trading that takes place before the market officially opens at 9:30 a.m. New York time, I personally avoid pre-market trading because since so few traders are trading, you have to trade in very small share sizes, if you are considering pre-market trading, you should check with your broker to see if they permit it, with all of that said though, it's useful to keep an eye on pre-market trading, a stock that is gapping up or down by 2% or more in the pre-market definitely gets my attention and may make my watchlist for the day.

Previous day close: the price of a stock when the market closes on the previous day, knowing the previous day close of a stock is a useful tool for gauging if a stock may come into play the following day and it is a figure used in a number of strategies and patterns explained in this book.

Price action: the movement in price of a stock, I prefer using candlesticks to chart the price action of a stock, capturing its highs and lows and the relationship between the open and close.

Profit target: as a day trader, you should have a daily profit target and once you reach it, don't be greedy and risk it, you can turn off your computer and enjoy the rest of your day, in addition, for each trade you set up, you should have a specific profit target that your strategy is based upon.

Profit-to-loss ratio: the key to successful day trading is finding stocks that have excellent profit-to-loss ratios, these are the stocks with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called risk/reward ratio or win:lose ratio.

R

Real time market data: to be a successful day trader, you need access to real time market data (that you usually must pay for), without any delay, as you will be making decisions and entering and exiting trades literally in minutes, swing traders on the other hand, who enter and exit trades within days or weeks, need only have access to end-of-day data, and that data is available for free on the Internet.

Relative Strength Index/RSI: a technical indicator that compares the magnitude of recent gains and losses in the price of stocks over a period of time to measure the speed and change of price movement, your scanner software or platform will automatically calculate the RSI for you, RSI values range from 0 to 100, an extreme RSI below 10 or above 90 will definitely catch my interest.

Retail trader: individual traders like you and I, we do not work for a firm and we do not manage other people's money.

Risk management: one of the most important skills that a successful day trader must master, you must find low-risk trading setups with a high reward potential, each trading day you are managing your risk.

Risk/reward ratio: the key to successful day trading is finding trading setups that have excellent risk/reward ratios, these are the trading opportunities with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called profit-to-loss ratio or win:lose ratio.

S

Scanner: the software you program with various criteria to find specific stocks to day trade in, Figures 4.2 to 4.5 are screenshots of the scanners I often use.

Short: an abbreviated form of "short selling", you borrow shares from your broker, sell them, and hope that the price goes even lower so you can buy them back at a lower price, return the shares to your broker and keep the profit for yourself, to say "I am short AAPL" for example means you have sold shares in Apple Inc. and are hoping their price goes even lower.

Short interest: the quantity of shares in a stock that have been sold short but not yet covered, it is usually reported at the end of the day, I generally do not trade stocks with a short interest higher than 30%, a high short interest means that traders and investors believe a stock's price will fall.

Short selling: you borrow shares from your broker and sell them, and then hope the price goes even lower so you can buy them back at the lower price, return the shares to your broker and keep the profit for yourself.

Short Selling Restriction/SSR: a restriction placed on a stock when it is down 10% or more from the previous day's closing price, regulators and the Exchanges place restrictions on the short selling of a stock when its price is dropping, when a stock is in SSR mode, you are still allowed to sell short the stock, but you can only short when the price is going higher, not lower, intraday.

Short squeeze: occurs when the short sellers panic and are scrambling to return their borrowed shares to their brokers, their actions cause prices to increase quickly and dangerously, you want to avoid being stuck short in a short squeeze, what you do want to do is ride the squeeze when the price quickly reverses.

Simple Moving Average/SMA: a form of moving average that is calculated by adding up the closing price of a stock for a number of time periods and then dividing that figure by the actual number of time periods.

Simulator: it's mandatory for new day traders who wish a successful career to trade in a simulator for several months, you should purchase a simulated account that provides you with real time market data and you should only trade in the share volume and with the amounts of money you will actually be trading with when you go live, simulators are an excellent way to practice using your Hotkeys, to practice creating if-then statements and to practice (and practice some more) your strategies.

Size: the "size" column on your Level 2 will indicate how many standard lots of shares (100 shares = 1 standard lot) are being offered for sale or purchase, a "4" for example means 400 shares.

Small cap stock: a stock with a low supply of shares which means that a large demand for shares will easily move the stock's price, the stock's price is very volatile and can move fast, most small cap stocks are under $10, some day traders love small cap stocks but do note that they can be really risky, they can also be called low float stocks or micro-cap stocks.

Spinning top: a type of candlestick that has similarly sized high wicks and low wicks that are usually larger than the body, they can be called indecision candlesticks and they indicate that the buyers and sellers have equal power and are fighting between themselves, it's important to recognize a spinning top because it may very well indicate a pending price change, Figures 6.6 and 6.7 are examples of spinning tops.

Standard lot: 100 shares, the "size" column on your Level 2 will indicate how many standard lots of shares are being offered for sale or purchase, a "4" for example means 400 shares.

Stock in Play: this is what you as a day trader are looking for, a Stock in Play is a stock that offers excellent risk/reward opportunities, it will move higher or lower in price during the course of the trading day and it will move in a way that is predictable, stocks with fundamental catalysts (some positive or negative news associated with them such as an FDA approval or disapproval, a restructuring, a merger or an acquisition) are often Stocks in Play.

Stop loss: the price level when you must accept a loss and get out of the trade, the maximum amount you should ever risk on a trade is 2% of your account, for example, if your account has $20,000 in it, then you should never risk more than $400 on a single trade, once you calculate the maximum amount of money you can risk on a trade, you can then calculate your maximum risk per share, in dollars, from your entry point, this is your stop loss, your stop loss should always be at a reasonable technical level, in addition, you must honor your stop loss, do not change it in the middle of a trade because you hope something will happen, gracefully exit your trade and accept the loss, do not be stubborn and risk your account.

Support or resistance level: this is the level that the price of a specific stock usually does not go higher than (resistance level) or lower than (support level), stocks often bounce and change the direction of their price when they reach a support or resistance level, as a day trader you want to monitor these levels because if your timing is correct you can profit from that rapid change in price direction, I provide some detailed commentary in this book on how to find support and resistance levels, the previous day close is one of the most powerful levels of support or resistance, Figure 7.23 is an example of a chart that I have drawn support and resistance lines on.

Swing trading: the serious business of trading stocks that you hold for a period of time, generally from one day to a few weeks, swing trading is a completely different business than day trading is.

T

Ticker: short abbreviations of usually one to five letters that represent the stock at the Exchange, all stocks have ticker symbols, Apple Inc.'s ticker for example is AAPL.

Trade management: what you do with your position when you enter a trade and before you exit it, you don't just sit patiently in front of your computer screen with your fingers crossed for good luck and watch what happens, as you monitor and process the information that is changing in front of you, you must adjust and fine-tune the trade you are in, you must be actively engaged in your trade, the only practical way to gain experience in trade management is in a simulator, using the share volume and actual amounts of money you will one day be trading with live.

Trade plan/trading plan: the plan you develop before you actually enter a trade, it takes hard work to develop a solid trade plan and to then practice sufficient self-discipline to stick with the plan, see also the definition for if-then statement/scenario.

Trading platform: a software that traders use for sending orders to the Exchange, brokers will offer you a trading platform that is sometimes for free but often for a fee, platforms are either web-based or as a software that needs to be installed on your computer, your trading platform provides your charting and order execution platform, having a good trading platform is extremely important as it needs to be fast and able to support Hotkeys and excellent charting capabilities, I myself use and recommend DAS Trader, I pay a monthly fee to access their platform and real time data.

V

Volume Weighted Average Price/VWAP: the most important technical indicator for day traders, your trading platform should have VWAP built right into it, VWAP is a moving average that takes into account the volume of the shares being traded at any given price, while other moving averages are calculated based only on the price of the stock on the chart, VWAP considers the number of shares in the stock being traded at each price, VWAP lets you know if the buyers or the sellers are in control of the price action.

W

Watchlist: before the market opens, you can tell which stocks are gapping up or down in price, you then search for the fundamental catalysts that explain these price swings, and you build a list of stocks that you will monitor that day for specific day trading opportunities, the final version of your watchlist generally has only two, three or four stocks on it that you will be carefully monitoring when the market opens, also called your Gappers watchlist.

Win:lose ratio: the key to successful day trading is finding stocks that have excellent win:lose ratios, these are the stocks with a low-risk entry and a high reward potential, for example, a 3:1 ratio means you will risk $100 but have the potential to earn $300, a 2:1 ratio is the minimum I will ever trade, also called profit-to-loss ratio or risk/reward ratio.