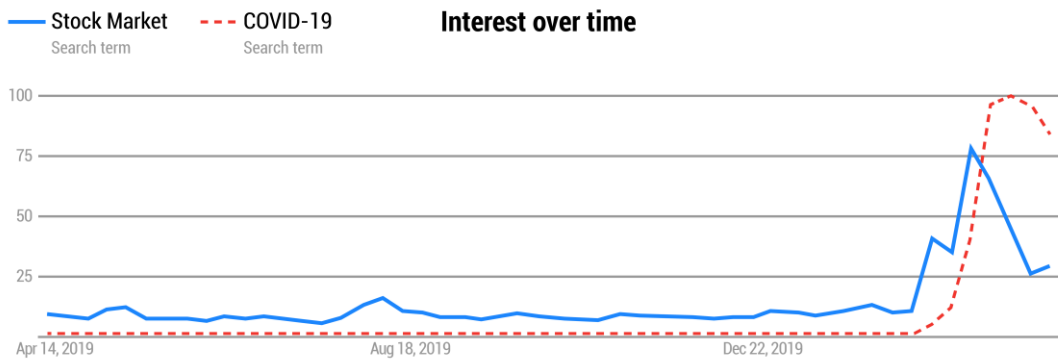# Stock Market Explained

## A Beginner's Guide to Investing and Trading in the Modern Stock Market

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# CHAPTER 1

**Interest over time**

Stock Market — Search term
COVID-19 - - - Search term

Figure 1.1: "covid-19" and "stock market" keyword Google search trends between April 2019 and April 2020. As you can see, there is a clear correlation. As the stock market drop hit the news cycles, people started searching more and more about the stock market in Google!
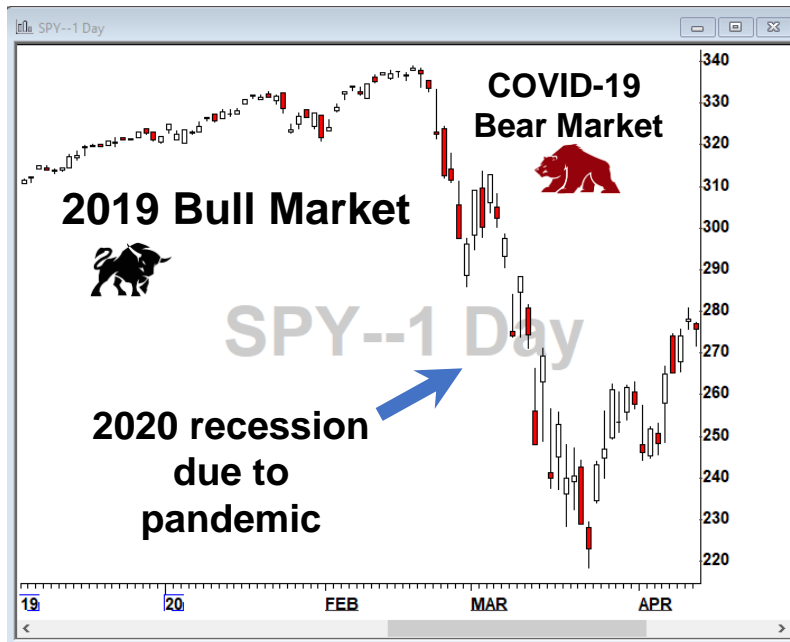
**Figure 1.2: Comparison between the bull market of 2019 and the bear market of 2020, as shown by the change in share value of 500 of the largest American companies. These companies are tracked by the S&P 500 and are traded in an exchange-traded fund known as the SPDR S&P 500 ETF Trust (ticker: SPY). For your information, S&P refers to Standard & Poor's, one of the indices which used to track this information.**
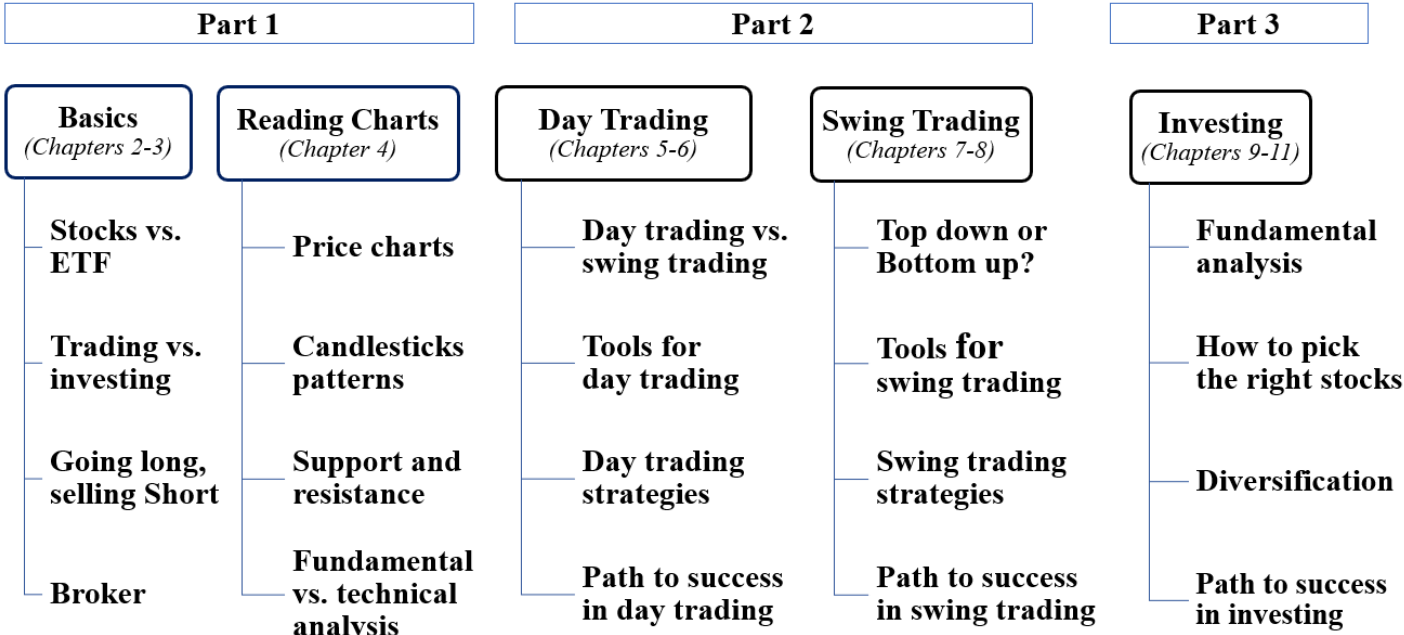
| Part 1 | | Part 2 | | Part 3 |
|---|---|---|---|---|

**Basics**
*(Chapters 2-3)*

- Stocks vs. ETF
- Trading vs. investing
- Going long, selling Short
- Broker

**Reading Charts**
*(Chapter 4)*

- Price charts
- Candlesticks patterns
- Support and resistance
- Fundamental vs. technical analysis

**Day Trading**
*(Chapters 5-6)*

- Day trading vs. swing trading
- Tools for day trading
- Day trading strategies
- Path to success in day trading

**Swing Trading**
*(Chapters 7-8)*

- Top down or Bottom up?
- Tools for swing trading
- Swing trading strategies
- Path to success in swing trading

**Investing**
*(Chapters 9-11)*

- Fundamental analysis
- How to pick the right stocks
- Diversification
- Path to success in investing

**Figure 1.3: How this book is organized. Chapters 1-4 and 7-11 are written by me. Chapters 5 and 6 on day trading are written by Andrew Aziz.**

# CHAPTER 2

## A. Cumulative Returns of Investing $100
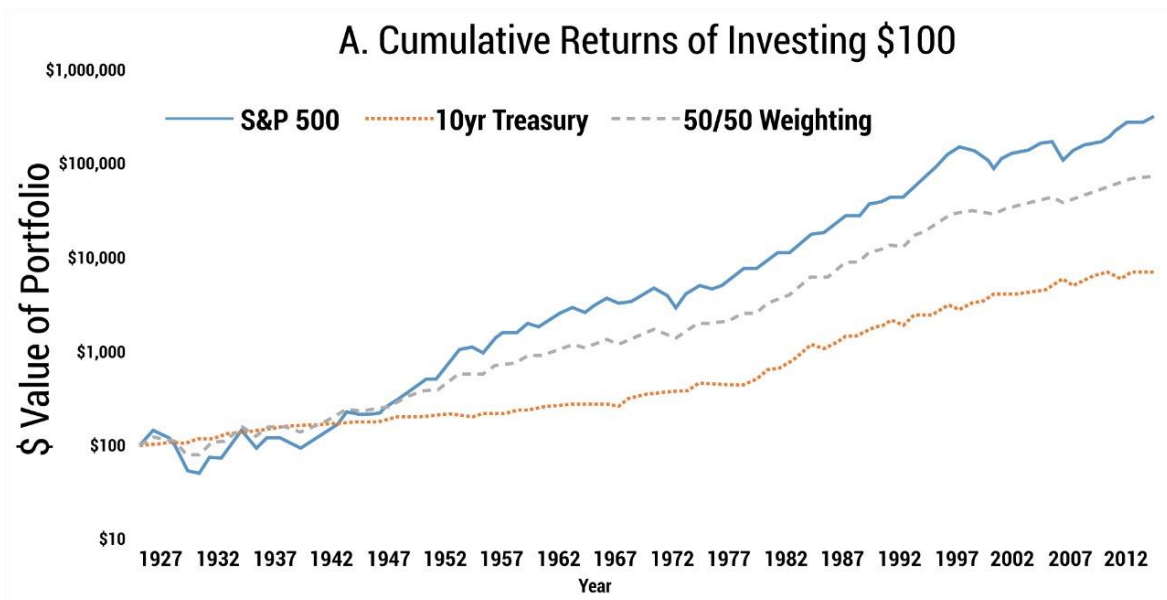
**Figure 2.1: The return on investing $100 in an exchange-traded fund known as the SPDR S&P 500 ETF Trust (ticker: SPY) (which tracks the share value of 500 of the largest American companies (as rated by the S&P 500)) vs. investing $100 in the U.S. Treasury bond market vs. investing $100 in a balanced portfolio comprised of 50% stocks and 50% bonds. As you can see, adding stocks to your portfolio can magnify your return in comparison to traditionally safer investments.**

## 20 year return of Apple vs Risk free saving account

**$300 investment in 2001 would have been worth more than $140,000**

**$300 in high interest saving account would have been worth $590**
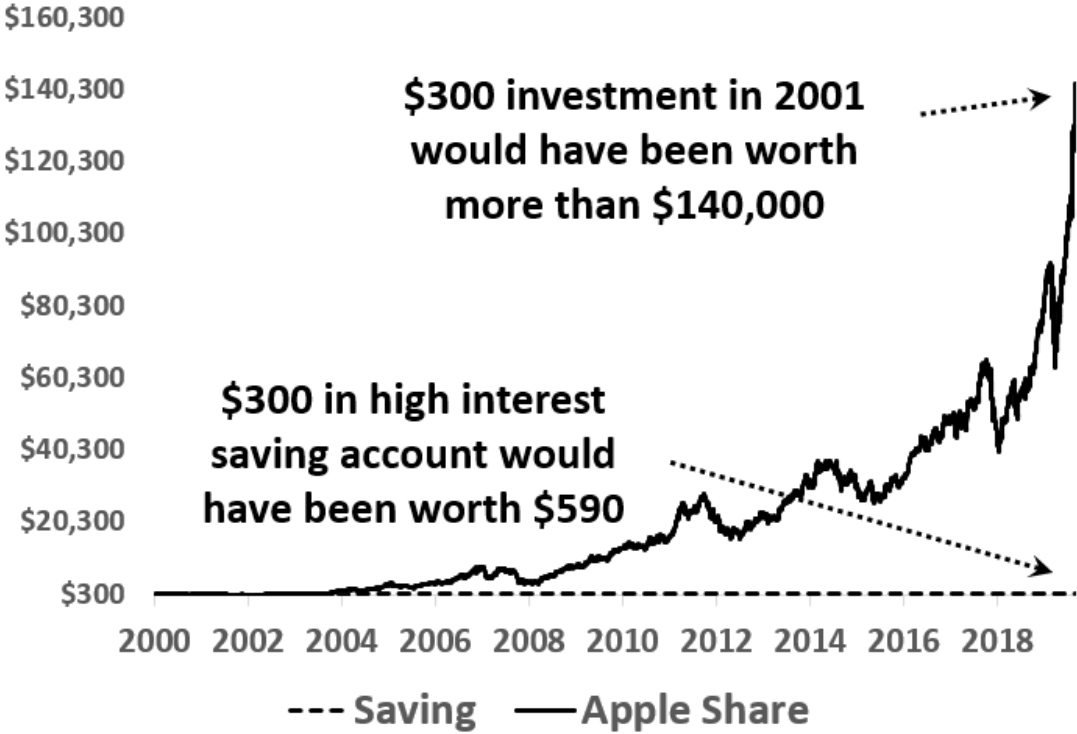
--- Saving  —— Apple Share

Figure 2.2: A hypothetical $300 investment in the Apple stock in the beginning of 2001 would have increased to over $140,000 by April 2020. This is despite the 3 major crashes: the dot-com bubble of 2001, the financial crisis of 2008, and the pandemic of 2020. By comparison, the same $300 investment in a high interest saving account, would have only been worth $590 in 2020

**Figure 2.2: A hypothetical $300 investment in the Apple stock in the beginning of 2001 would have increased to over $140,000 by April 2020. This is despite the 3 major crashes: the dot-com bubble of 2001, the financial crisis of 2008, and the pandemic of 2020. By comparison, the same $300 investment in a high interest saving account, would have only been worth $590 in 2020**

| Value Stock | Growth Stock |
|---|---|
| Shorter time horizon | Longer time horizon, Often not profitable yet |
| Pays regular dividend | No dividend |
| Grows at speed of national economy (GDP) | Grows much faster than national economy |
| Excellent for people near retirement | Excellent for younger people with 10-15 years time horizon |

**Figure 2.3: Value stocks are ideal for people near retirement or those who are looking for steady cash flow. In contrast, growth stocks could provide a far greater return on investment in the long run but can also be much riskier.**
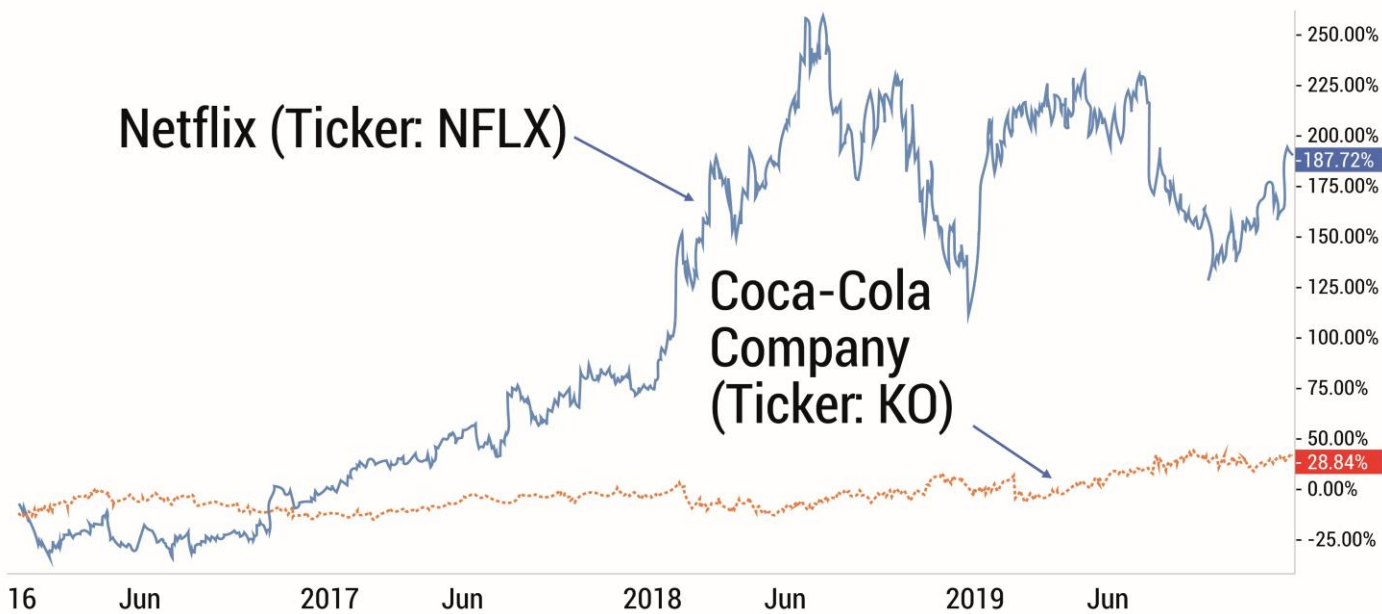
**Figure 2.4: Performance of the shares of Netflix Inc. (ticker: NFLX), a growth stock, vs. the shares of The Coca-Cola Company (ticker: KO), a value stock, during 2019 and into 2020. As you can see, Coca-Cola pays dividends and offers its investors a steady cash flow, however Netflix outperforms Coca-Cola in terms of capital gains.**

| 30 Companies Comprising the Dow | | |
|---|---|---|
| Microsoft | Home Depot | Nike |
| Apple | Walt Disney | IBM |
| Visa | Coca-Cola | Raytheon Technologies |
| JP Morgan Chase | Verizon | American Express |
| Johnson & Johnson | Merck & Co | 3M |
| Walmart | Pfizer | Goldman Sachs |
| Procter & Gamble | Chevron | Caterpillar |
| Intel | Cisco Systems | Walgreens |
| UnitedHealth | Boeing | Dow |
| Exxon Mobil | McDonald's | Travelers |

**Figure 2.5: The 30 companies that comprise the Dow Jones Industrial Average index as of April 2020. As you can see, many of the companies represent the Information Technology Sector, showing the shift in the U.S. economy from an industrial and resource-based focus to a service focus.**
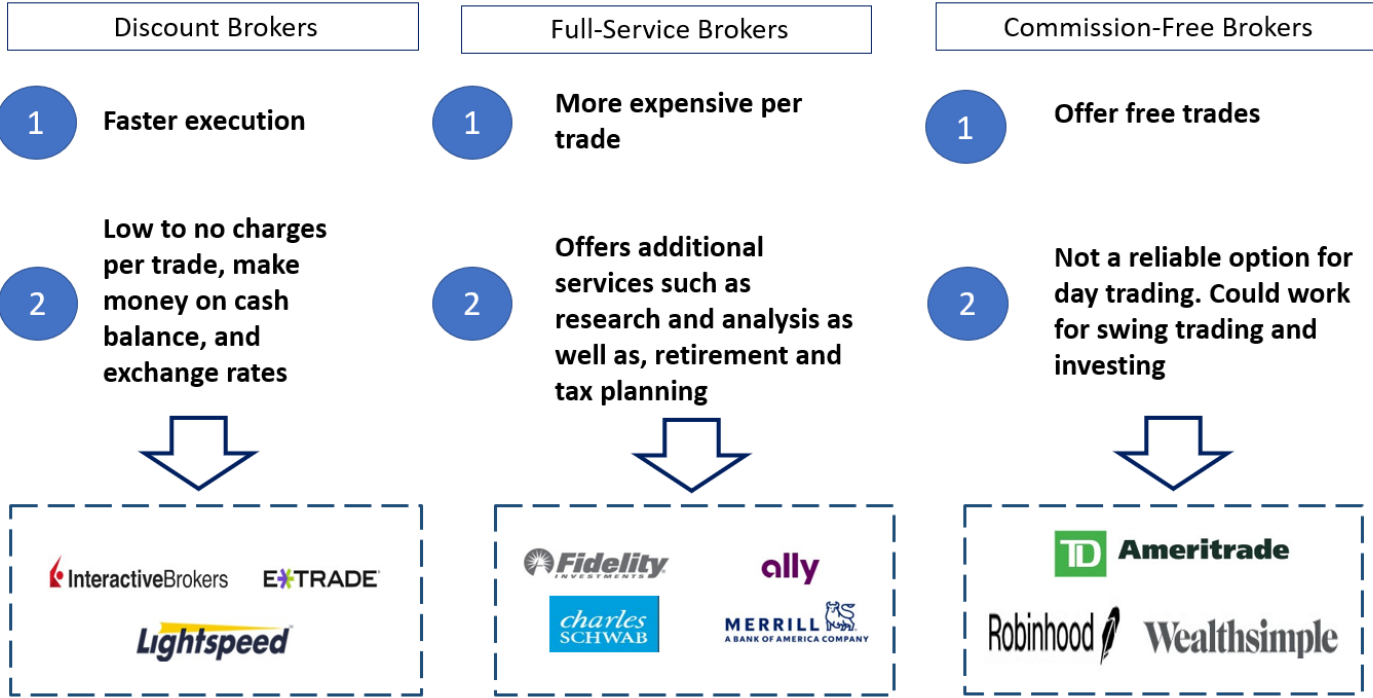
**Figure 2.6: A chart showing the volume being traded, the price and the volatility of shares of Apple Inc. (ticker: AAPL) over a single trading day. Note that the volume of shares being traded is high during the Open, it decreases during the Mid-day, and then increases again during the Close. Volume is usually very low in the pre- and post-market. In case you are not familiar with a standard trading chart, volume is shown in the bottom section. You can see that at about 9:30 a.m., the volume of shares being traded suddenly increased to some 4.2 million. Price is shown in the top section of the chart. I will discuss candlesticks (the red and white "boxes" in the top section of this chart) later in this book. They are what track the price of the stock, with the numbers on the right-hand side being the price (for example, at 5:30 p.m., Apple is priced at $287.50/share).**
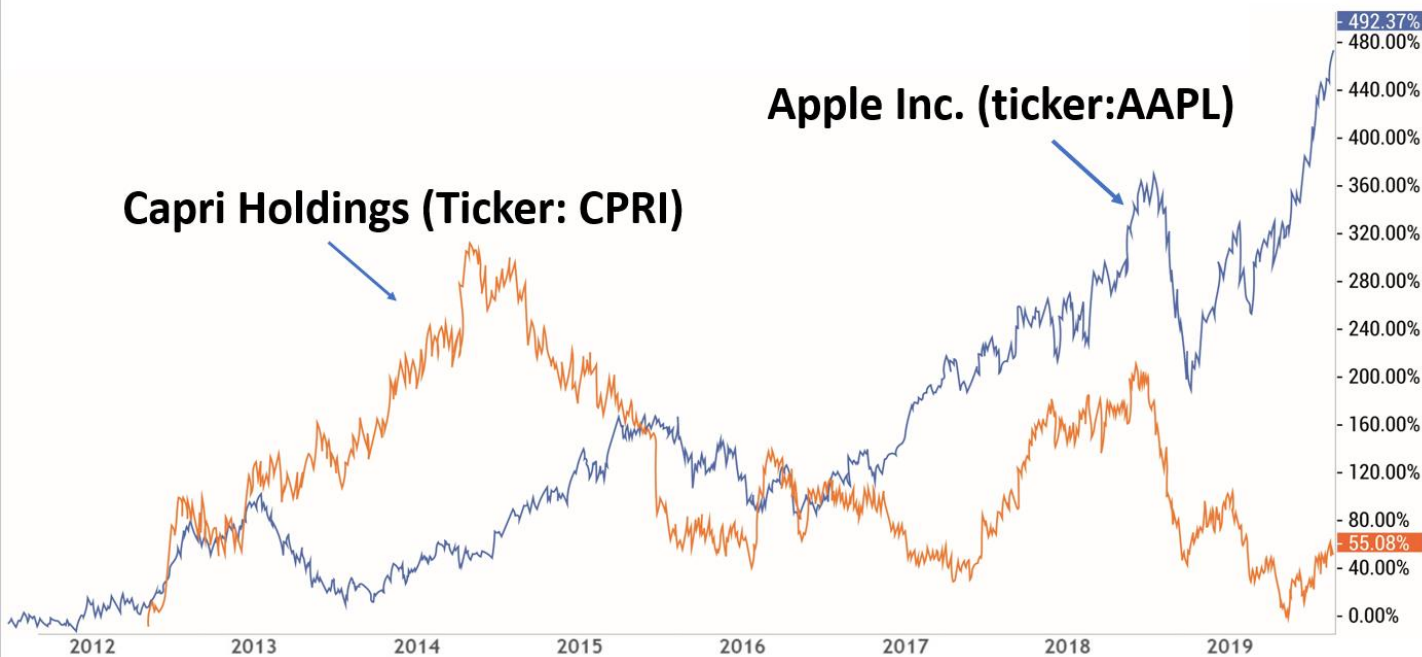
**Figure 2.7: The price of stock of Capri Holdings Limited (ticker: CPRI) vs. Apple Inc. (ticker: AAPL) for the period of January 2019 to April 2020. Although Capri has offered higher dividends, Apple has been able to provide investors with more capital gains due to the value of its stocks growing in this time frame. The growth opportunity of a stock should be an important factor in stock selection.**

# CHAPTER 3

| Discount Brokers | Full-Service Brokers | Commission-Free Brokers |
|---|---|---|
| **1** Faster execution | **1** More expensive per trade | **1** Offer free trades |
| **2** Low to no charges per trade, make money on cash balance, and exchange rates | **2** Offers additional services such as research and analysis as well as, retirement and tax planning | **2** Not a reliable option for day trading. Could work for swing trading and investing |
| InteractiveBrokers  E*TRADE  Lightspeed | Fidelity INVESTMENTS  ally  charles SCHWAB  MERRILL A BANK OF AMERICA COMPANY | TD Ameritrade  Robinhood  Wealthsimple |

**Figure 3.1: A summary of the three different types of brokers. While each type of broker has unique selling points, you should choose one depending on your needs. Day traders need to use direct-access brokers (also called discount brokers), while swing traders and investors can use either full-service or commission-free brokers.**

PEAK
CAPTIAL TRADING

**Figure 3.2: Trading volume in shares of Amazon.com Inc. (ticker: AMZN) between late December 2019 and into April 2020. As you can see, volume on average is quite consistent, but it will increase at times (such as when earnings are released or when there is positive or negative "breaking news" involving the company).**

| Company | Ticker | Number of share outstanding | Price/share as of April 17th | Average daily trading volume | Market Capitalization | Category |
|---------|--------|-----------------------------|------------------------------|------------------------------|-----------------------|----------|
|  | AAPL | 4.37 B | $282.80 | 39.2M | $1.24T | Mega Cap |
|  | NKE | 1.24B | $89.91 | 9.3M | $111.49B | Large Cap |
|  | AFG | 89.8M | $71.36 | 1M< | $6.4B | Med Cap |
|  | PZZA | 32.28M | $65.13 | 1M< | $2.1B | Small Cap |

**Figure 3.3: The market cap, trading volume and other financial data for four different companies as of April 2020. As you can see, companies with bigger market capitalization also have higher daily trading volumes.**
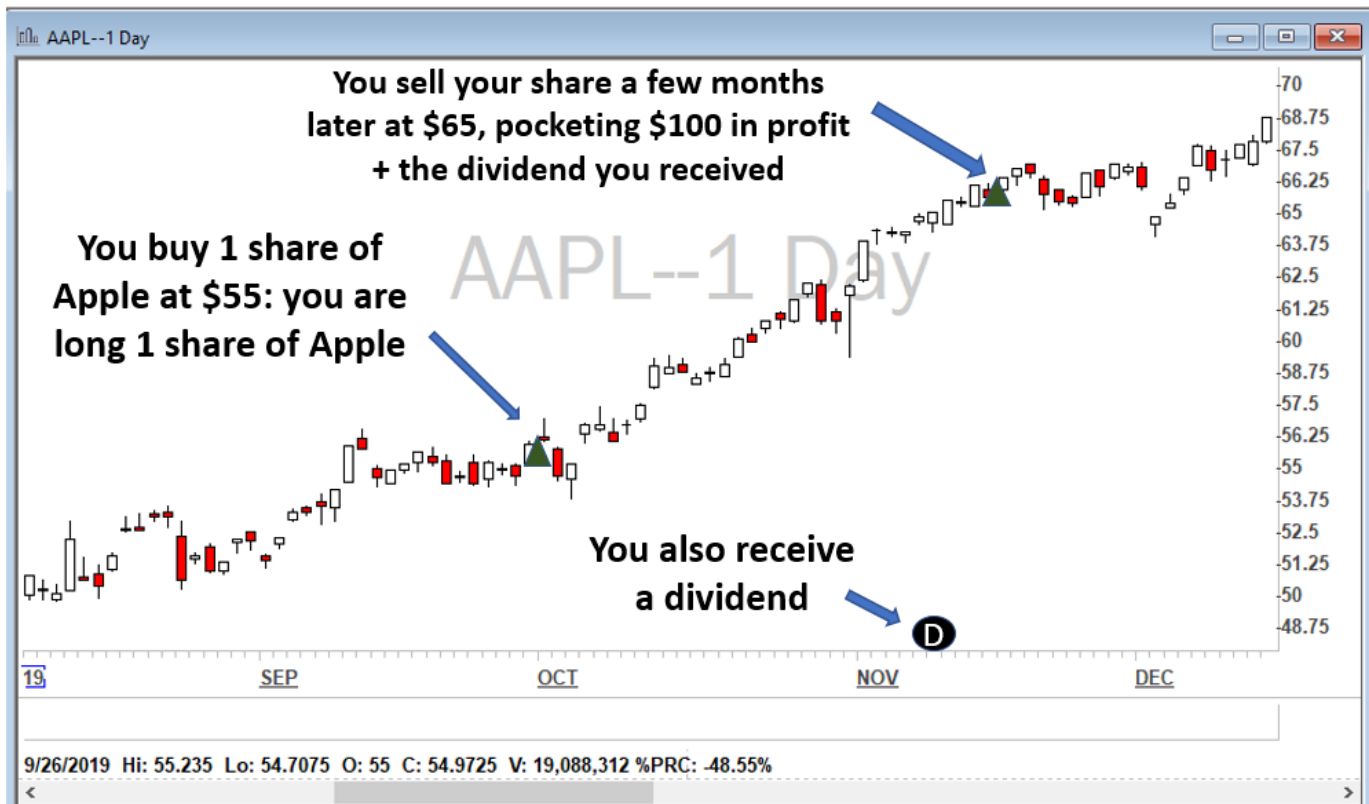
**Figure 3.4:** An example of going long on Apple Inc. (ticker: AAPL) in a swing trade. In addition to a capital gain, you also receive a dividend.

**Figure 3.5: An example of a short seller taking profit on Boeing Co. (ticker: BA) in a swing trade. While short selling can increase your return potential, you need to understand that the risks are also higher. Theoretically, stocks can increase infinitely in price, making it very risky if you are holding a short position in them.**
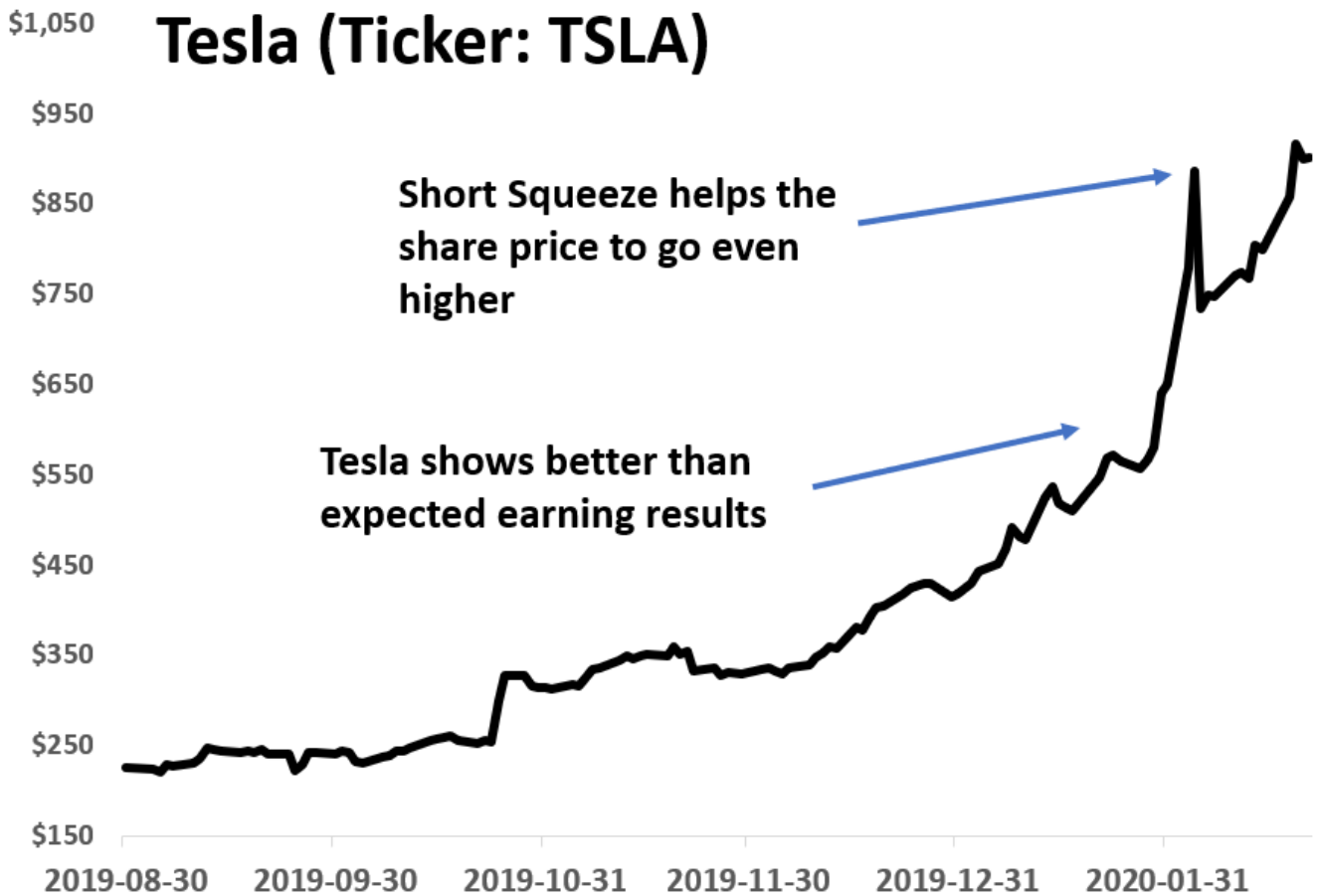
**Figure 3.6:** A chart showing the price of the stock of Tesla Inc. (ticker: TSLA) increasing due to a great earnings report. As the price of the stock increased, those traders who were short panicked and scrambled to return their borrowed shares to their brokers. Their purchases of Tesla's shares in order to cover their shorts caused the price to reach even higher levels. This is called a short squeeze.

# CHAPTER 4

| Fundamental Analysis | Technical Analysis |
|---|---|

| Company trends, revenue growth | Balance sheet strength | Industry and economic outlook | Candlesticks volume | Moving averages, indicators | Chart pattern |
|---|---|---|---|---|---|

**Figure 4.1: Some of the key elements of fundamental analysis and technical analysis. Fundamental analysis looks at the health of the company and the economy, while technical analysis focuses solely on the company's price charts.**

# TYPES OF PRICE CHARTS
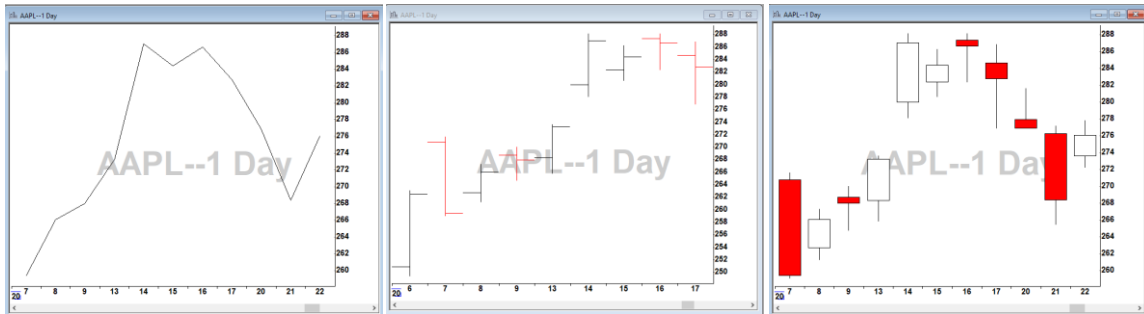


Line Chart      Bar Chart      Candlestick

**Figure 4.2: The three main types of charts. Swing and day trading rely heavily on candlestick charts while line charts can be used successfully when investing.**
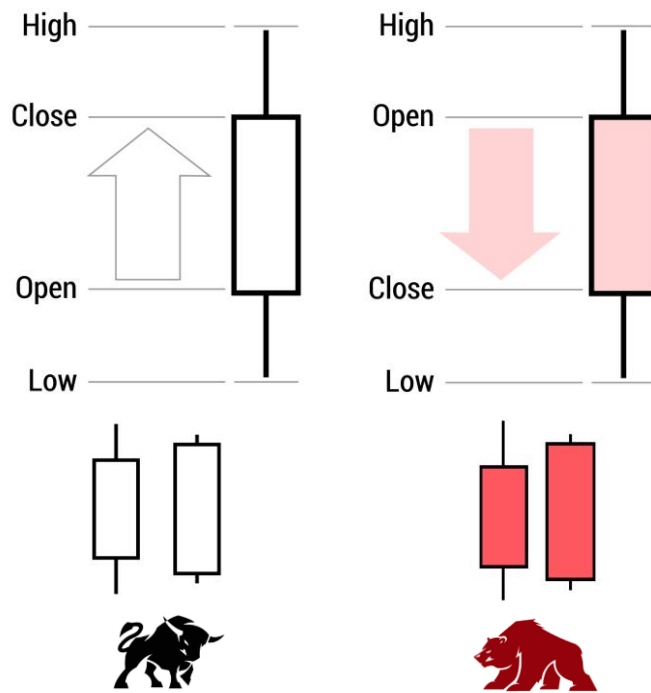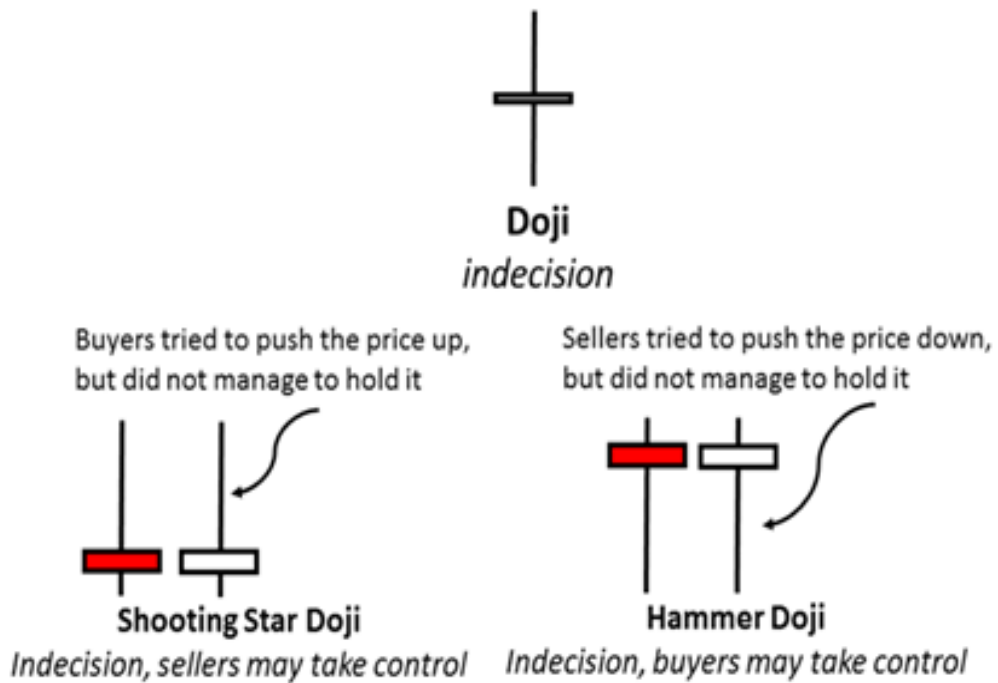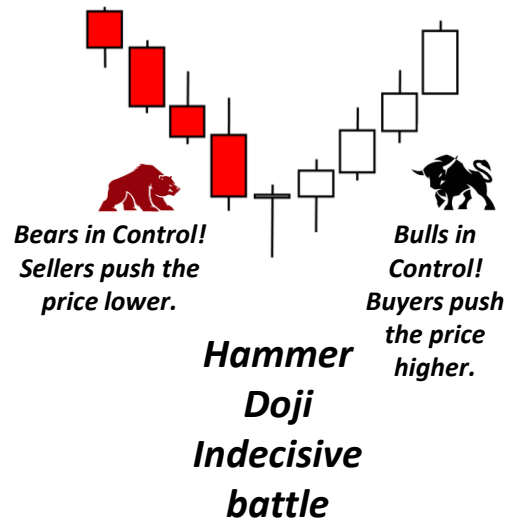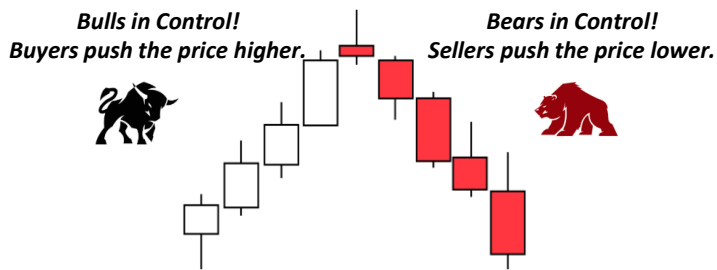
**Figure 4.3: Candlestick examples.**

**Doji**
*indecision*

Buyers tried to push the price up, but did not manage to hold it

Sellers tried to push the price down, but did not manage to hold it

**Shooting Star Doji**
*Indecision, sellers may take control*

**Hammer Doji**
*Indecision, buyers may take control*

*Figure 5.2 - Buying and selling pressure definition on Dojis.*

**Shooting Star Doji
Indecisive battle**

*Bulls in Control!
Buyers push the price higher.*

*Bears in Control!
Sellers push the price lower.*

*Bears in Control!
Sellers push the
price lower.*

*Bulls in
Control!
Buyers push
the price
higher.*

**Hammer
Doji
Indecisive
battle**

*Figure 5.3 – Bottom and Top Reversal Strategies with an indecision candlestick formed as a sign of entry.*

Figure 4.6: An example of a Cup and Handle Pattern on the daily chart of the SPDR S&P 500 ETF Trust (ticker: SPY). Sellers pushed the price down to the $220/share level, while buyers recovered the price twice, forming a Cup and Handle Pattern on the chart.
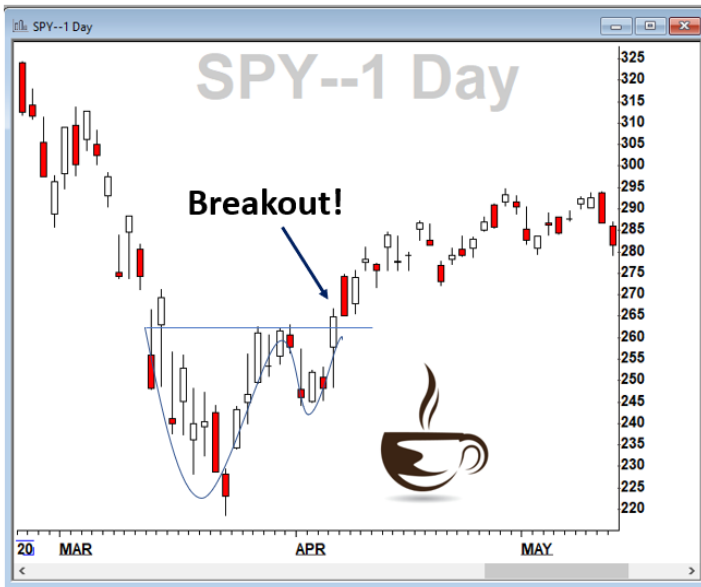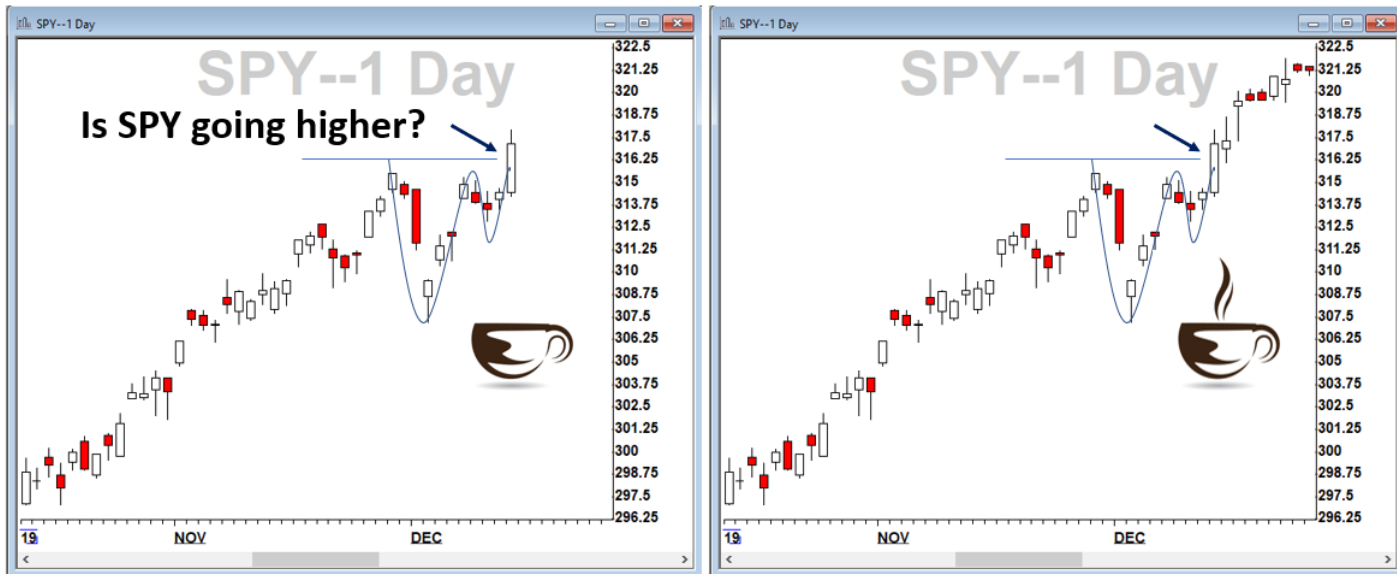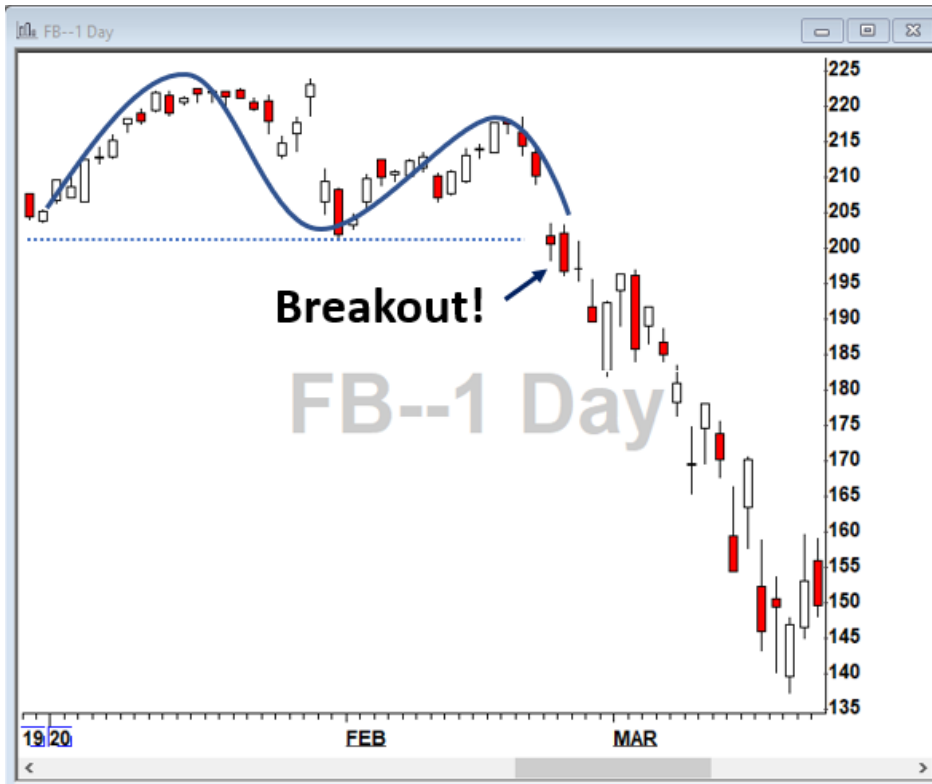
Figure 4.7: Continuing the example of a Cup and Handle Pattern on the daily chart of the SPDR S&P 500 ETF Trust (ticker: SPY). The inability of sellers to push the price back down to the $220/share level showed a lack of conviction amongst sellers. Buyers were then able to take control, causing the price to go up.

**Figure 4.8: Example of a Cup and Handle Pattern on the daily chart of the SPDR S&P 500 ETF Trust (ticker: SPY) in December 2019. Similar to the previous example, sellers took control of the price and pushed it down to the $308/share level. Buyers recovered the price to $314. Sellers were then unable to bring the price back down to where it had been, and that led to the pattern of a handle forming on the chart. With buyers in control, the price was pushed up to the $320 level.**
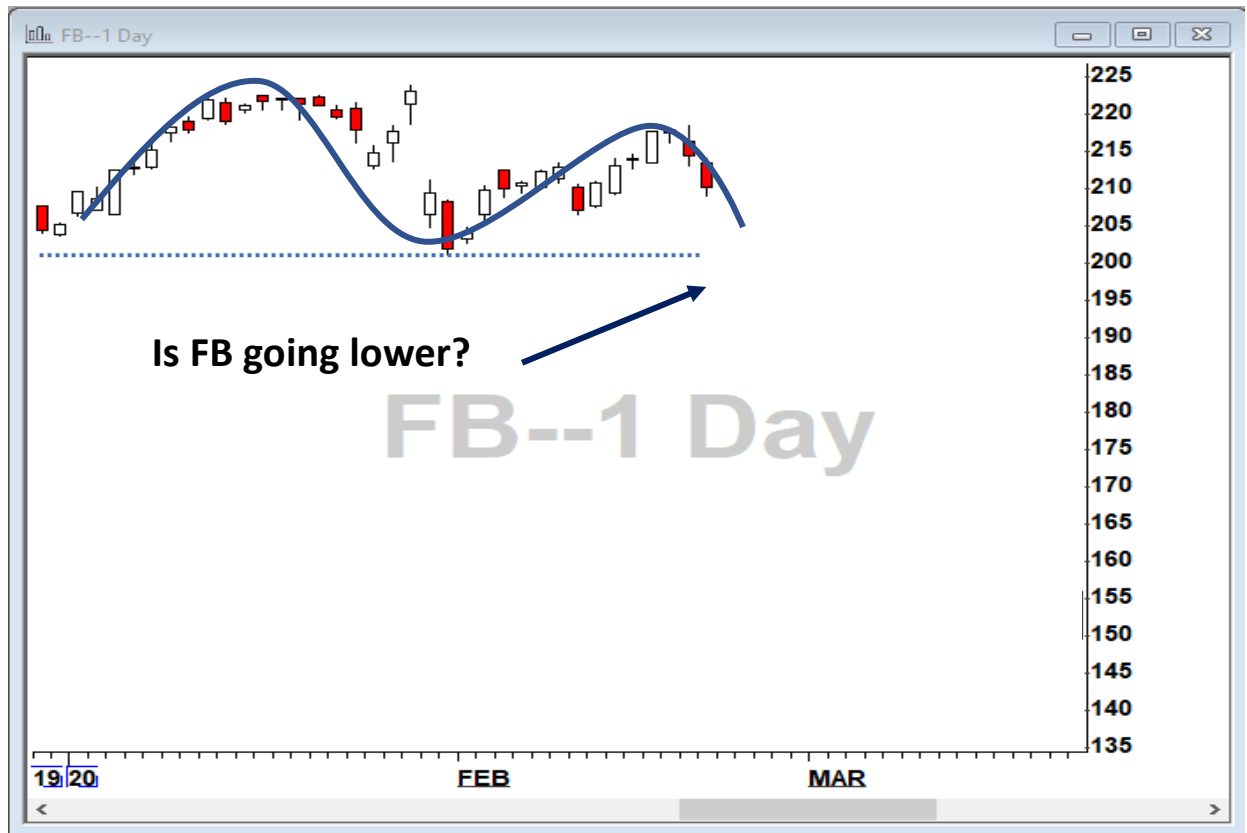
**Figure 4.9: Example of a Reverse Cup and Handle Pattern on the daily chart of Facebook Inc. (ticker: FB). In January 2020, buyers were able to push the price of Facebook up to the $220/share level. After sellers took control and succeeded in lowering the share price, buyers were unable to take the price back up to the $220 level, and thus the pattern of a reversed handle was formed on the chart. This demonstrates a lack of conviction amongst buyers.**

**Figure 4.10: Continuing the example of a Reverse Cup and Handle Pattern on the daily chart of Facebook Inc. (ticker: FB). Lack of conviction amongst buyers caused sellers to take control. By March 2020, sellers had pushed the price of Facebook down to the $140/share level.**
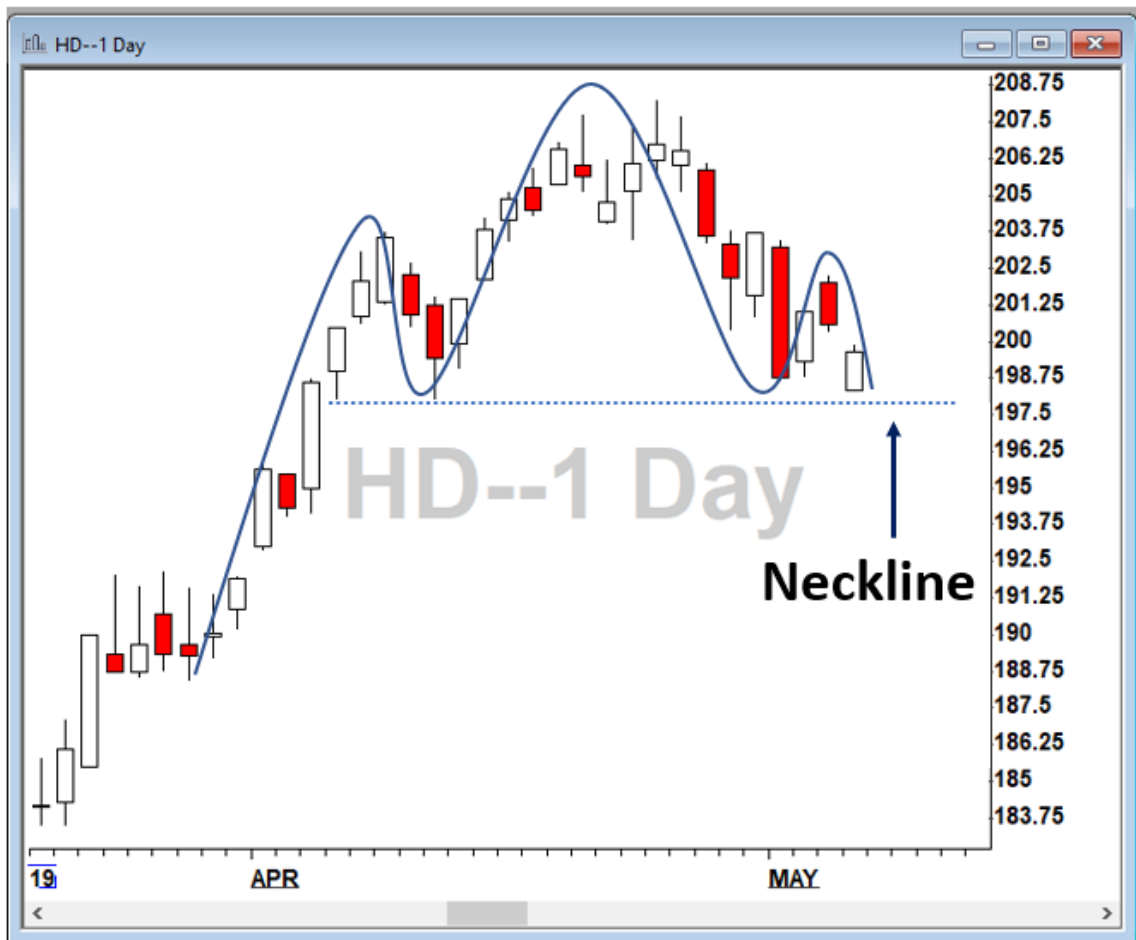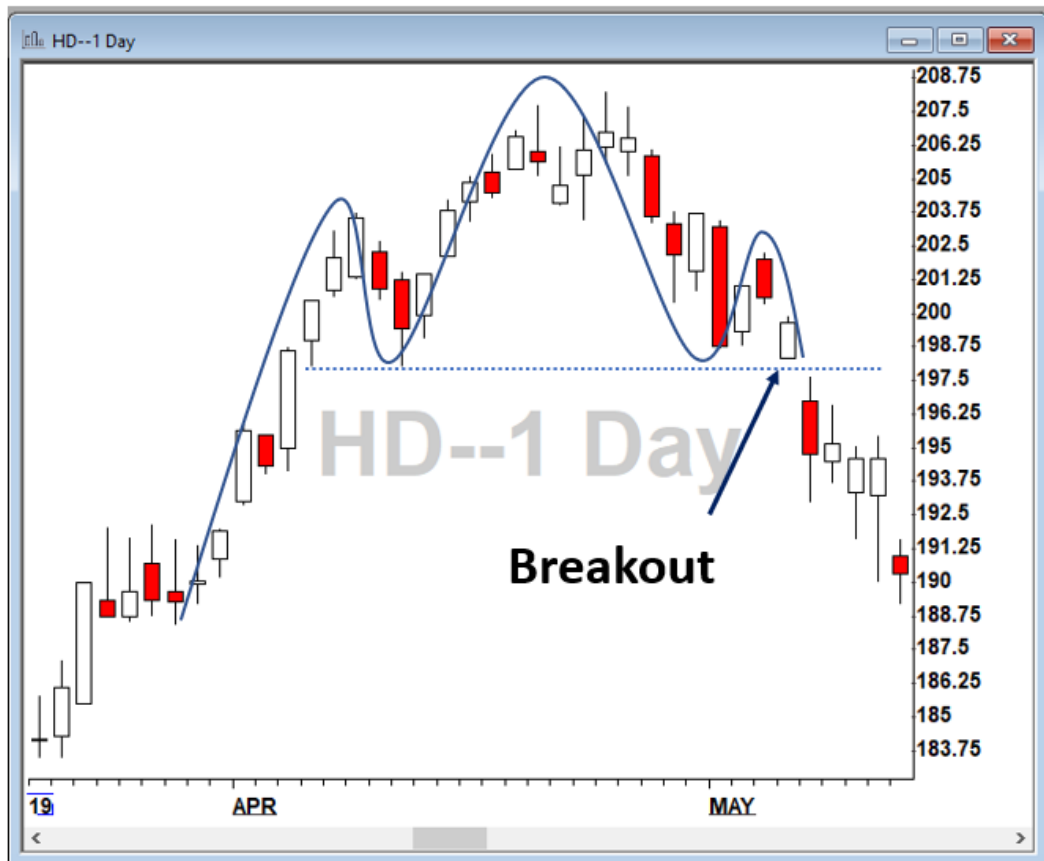
**Figure 4.11: Example of the Head and Shoulders Pattern on the daily chart of Home Depot Inc. (ticker: HD). Buyers were initially able to move the price up to the $202/share level, and then up to the $207 level. Sellers were able to bring the price down to $200 but then buyers were not able to push the price back to the $207 level. These price movements created an image on the price chart of a left shoulder, a head, and then a right shoulder. The inability of buyers to move the price back up to the $207 range signals weakness amongst buyers.**

**Figure 4.12:** An example of using the Head and Shoulders Pattern to predict how far the price of a stock will drop after the appearance of the image of a right shoulder on a price chart. In this instance, following the creation of the right shoulder, sellers took control and pushed the price down to $187/share. Oftentimes, you can expect the stock's value to fall at least as far as the difference in price between where the pattern of the right shoulder's neckline placed and where the top of the pattern of the head reached. In this case, the neckline is at the $200 level and the head is at the $207 level. You could therefore expect the price of the stock to fall at least $7.
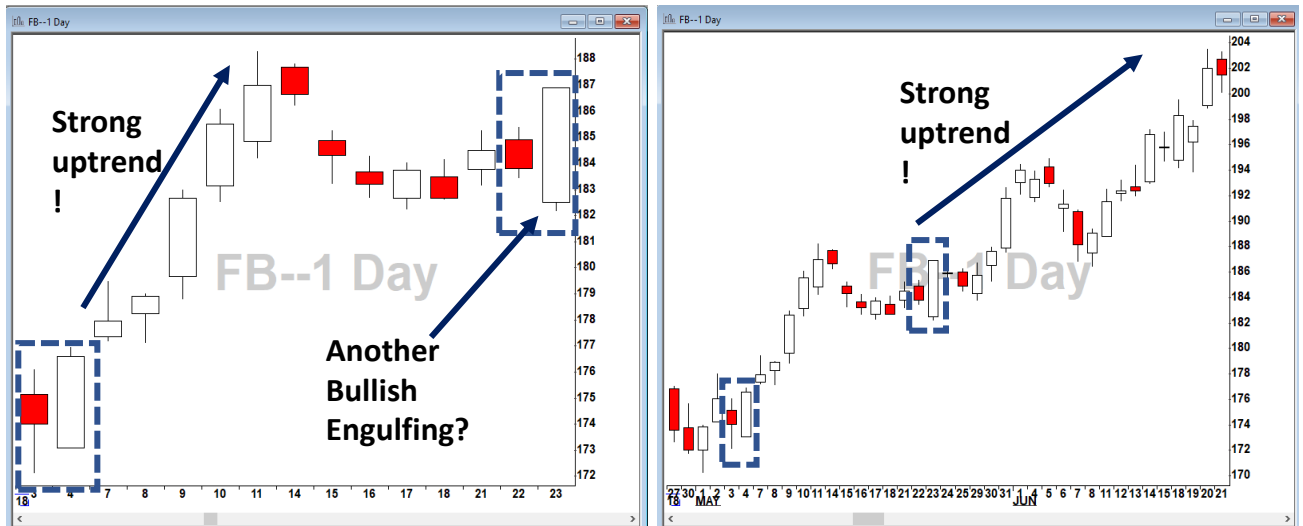
**Figure 4.13: Example of a Bullish Engulfing Pattern on the price chart of Facebook (ticker: FB). Despite the candlestick (and thus the price of shares) opening at a lower price on , May 4, 2018 than it had closed on , May 3 , 2018 (the previous trading day), the May 4, 2018 candlestick closed higher than the previous candlestick had opened. This Bullish Engulfing Pattern then signals buyers to push the price up. Same thing happened just few weeks after on May 22 and 23 price action.**
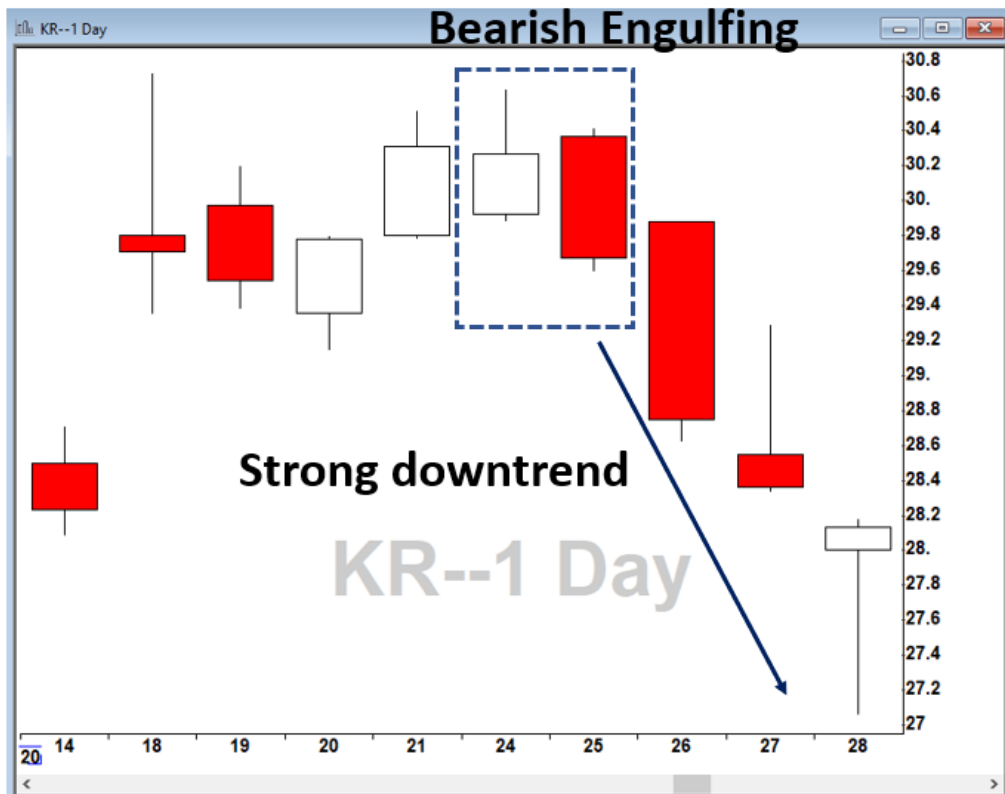
**Figure 4.14: Example of a Bearish Engulfing Pattern on the price chart of The Kroger Company (ticker: KR). The candlestick (and thus the price of shares) opened higher on February 25, 2020 than it had closed the previous trading day, but the candlestick closed lower on February 25, 2020 than the previous day's candlestick had opened, showing weakness amongst buyers. Sellers had taken over control of the stock's price, and pushed it down further the next day.**
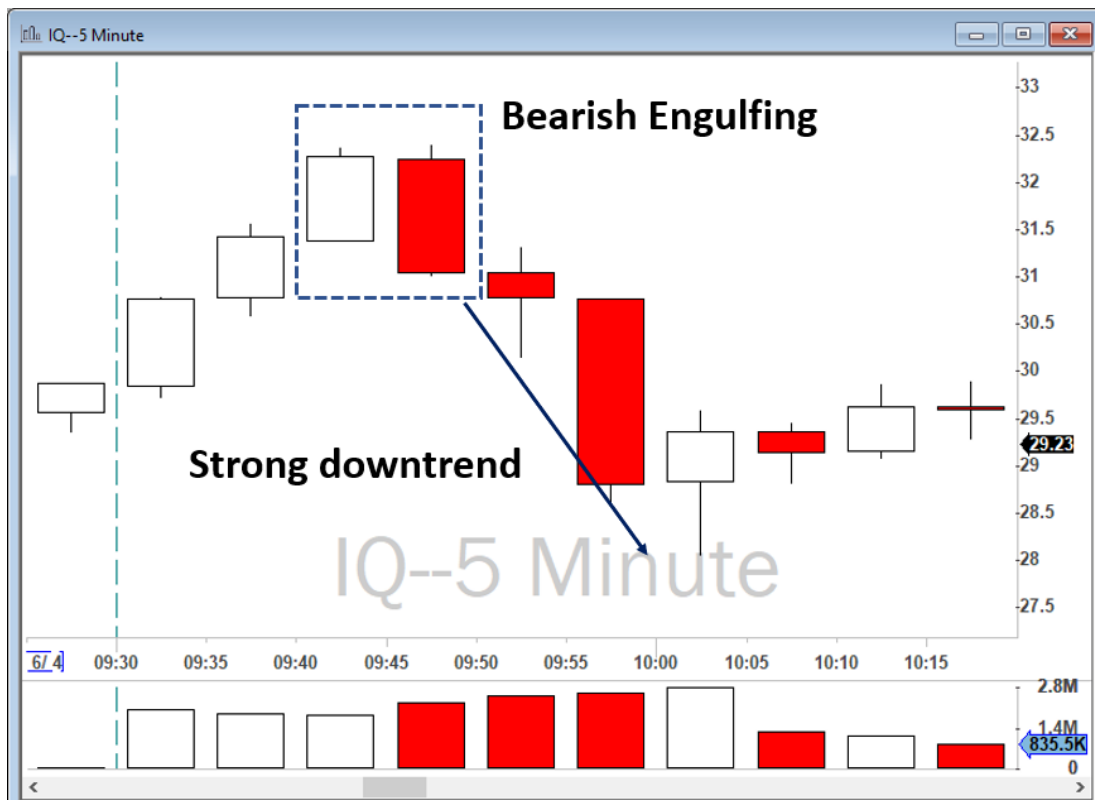
**Figure 4.15: Example of a Bearish Engulfing Pattern on the 5-minute price chart of iQIYI Inc. (ticker: IQ) on June 4, 2018. As you can see, a 5-minute candlestick opened higher than the previous candlestick had closed, but closed lower than the previous candlestick had opened, signaling that sellers were in control. The stock then sold off over the next 10 minutes.**

**Figure 4.16: From August 2019 to December 2019, shares in Amazon.com Inc. (ticker: AMZN) traded between a support level (their price could not go lower than) and a resistance level (their price could not go higher than). As soon as the price of the stock broke the resistance level, the price was able to move higher. The resistance level then became the support level for the stock.**

**Figure 4.17: The share price of Facebook Inc. (ticker: FB) in an upward trend testing multiple bottoms. The upward trend will not be challenged unless Facebook breaks the support level.**

**Figure 4.18: Shares of Amazon.com Inc. (ticker: AMZN) were making all-time highs in April 2020 due to an unprecedented level of demand for Amazon's services and products as well as the agility of its business model in the midst of the pandemic and economic slowdown.**
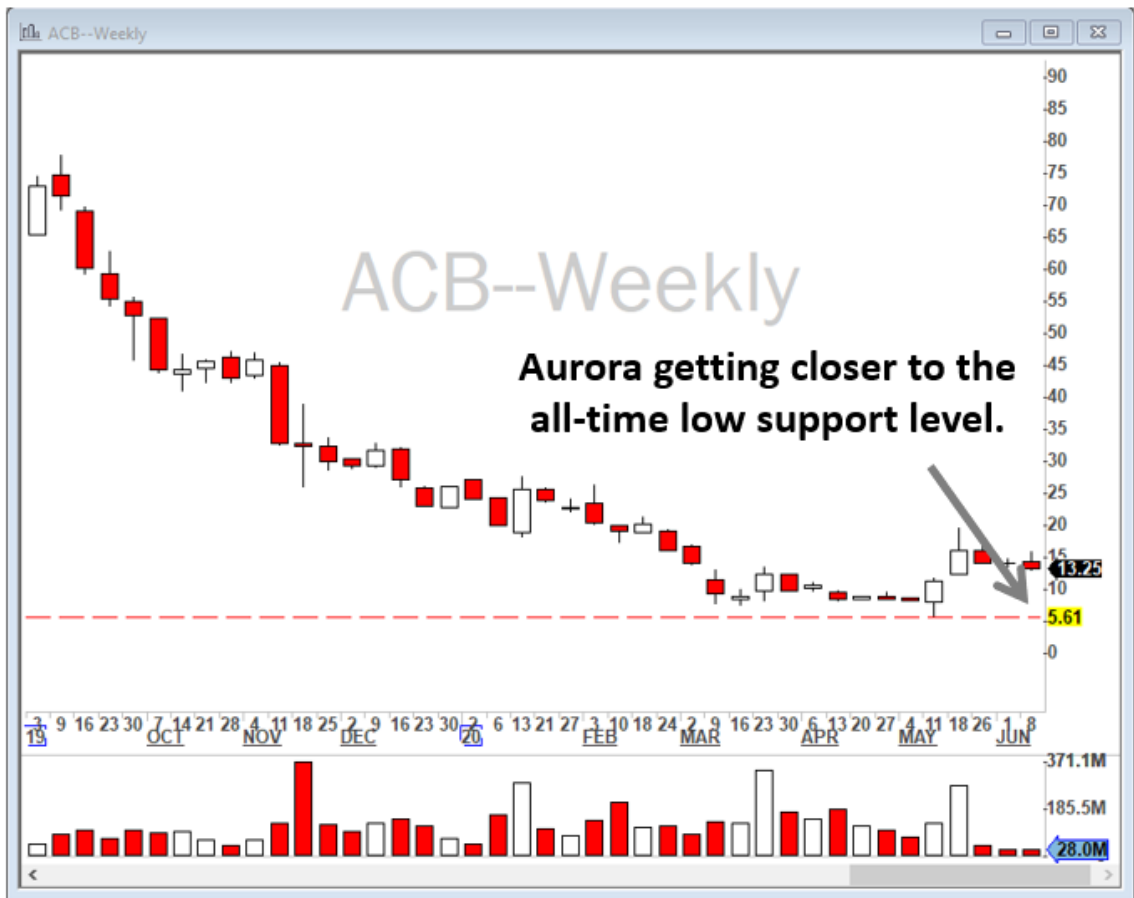
**Figure 4.19: Shares of Aurora Cannabis Inc. (ticker: ACB) were making near all-time lows in the spring of 2020. The stock had been missing earnings projections for multiple quarters, and that sent the stock in a downward frenzy.**

**Figure 4.20: Daily chart of Tesla(ticker: TSLA), firstly without and then with support and resistance lines plotted.**
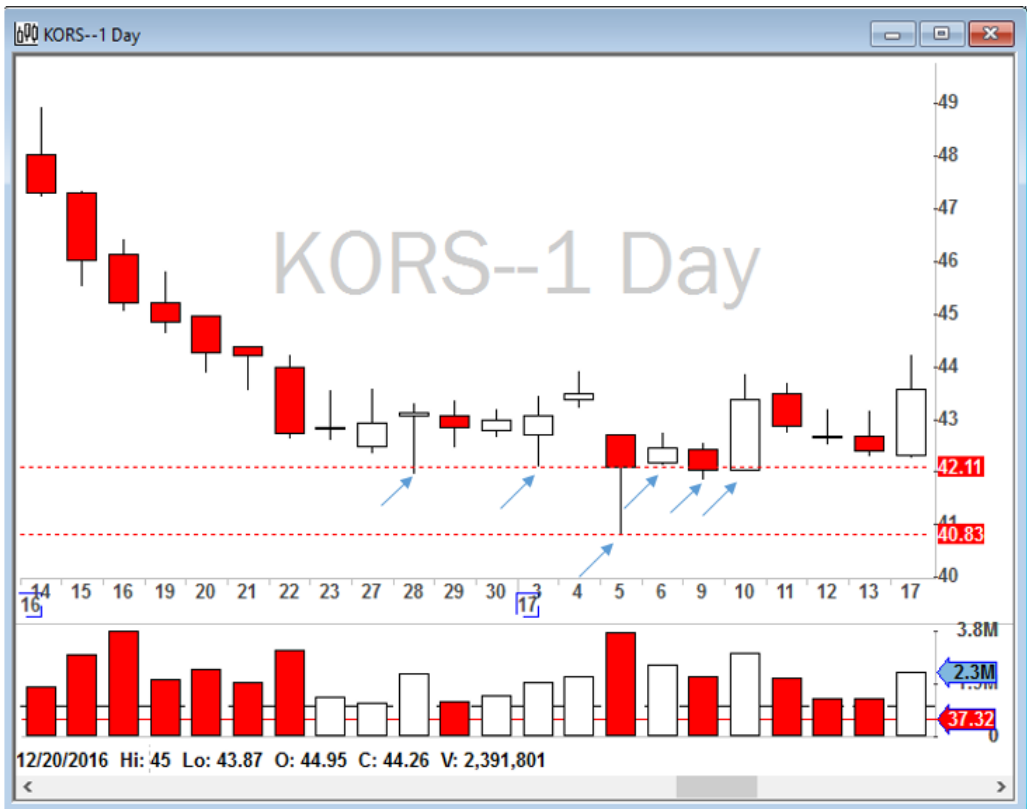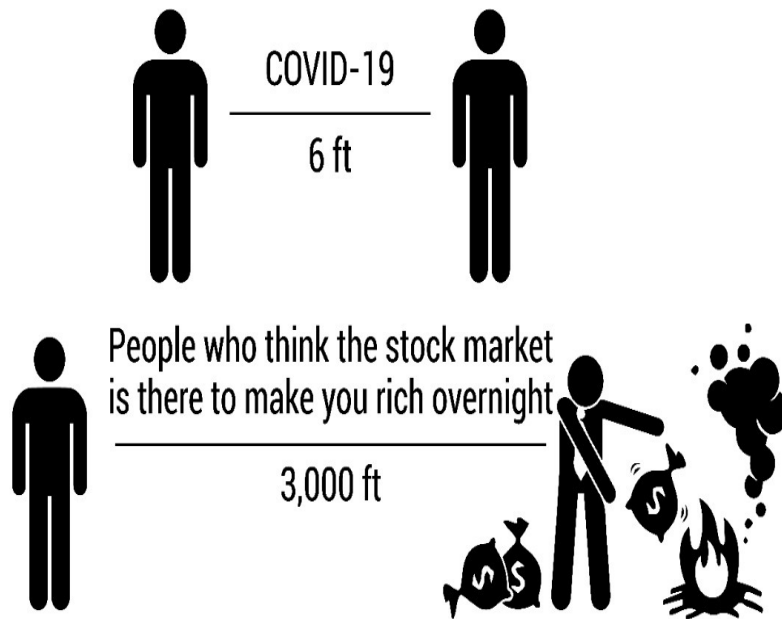
**Figure 4.21: Daily chart of the company then named Michael Kors Holdings Ltd. (ticker: KORS), with two support and resistance lines marked.**

# CHAPTER 5

**Figure 5.1 - Images of a social distancing guideline related to COVID-19 (to protect your health), and a social distancing guideline related to those who want to make you rich overnight via the stock market (to protect your wealth). (For my non-American friends, 6 feet is about 1.8 meters, and 3,000 feet is about 900 meters.)**

**Figure 5.2: 5-minute chart of Virgin Galactic Holdings Inc. (ticker: SPCE) showing intraday (the same day) price movements. There is significant potential for day traders to benefit from the price volatility.**
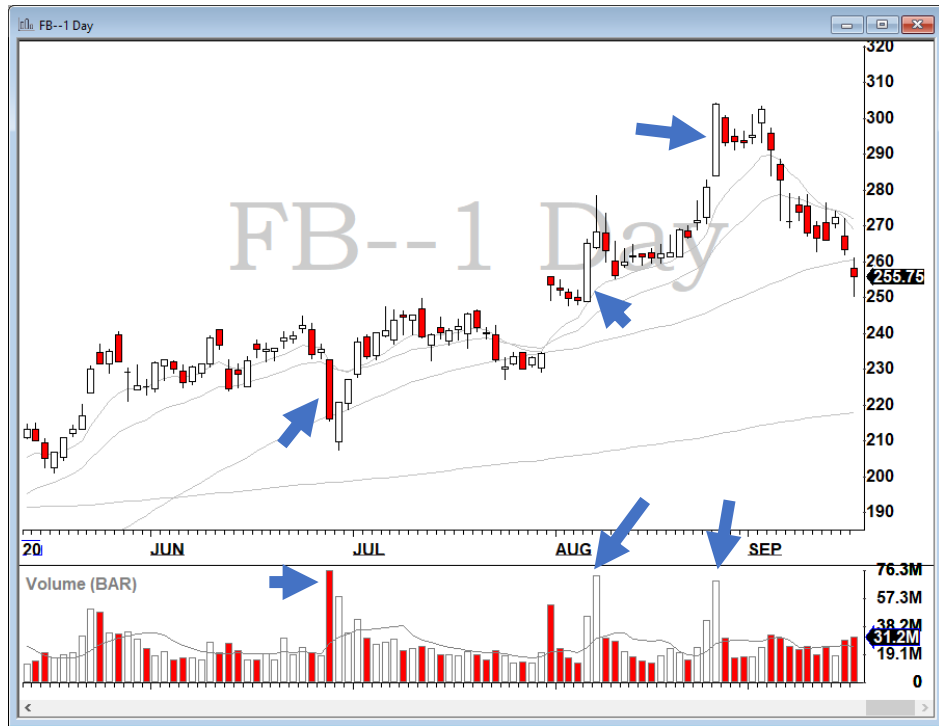
**Figure 5.3: Daily chart of Facebook Inc. (ticker: FB) for the summer of 2020. The days that AAPL had a high relative volume are marked. Those days were suitable for day trading FB.**
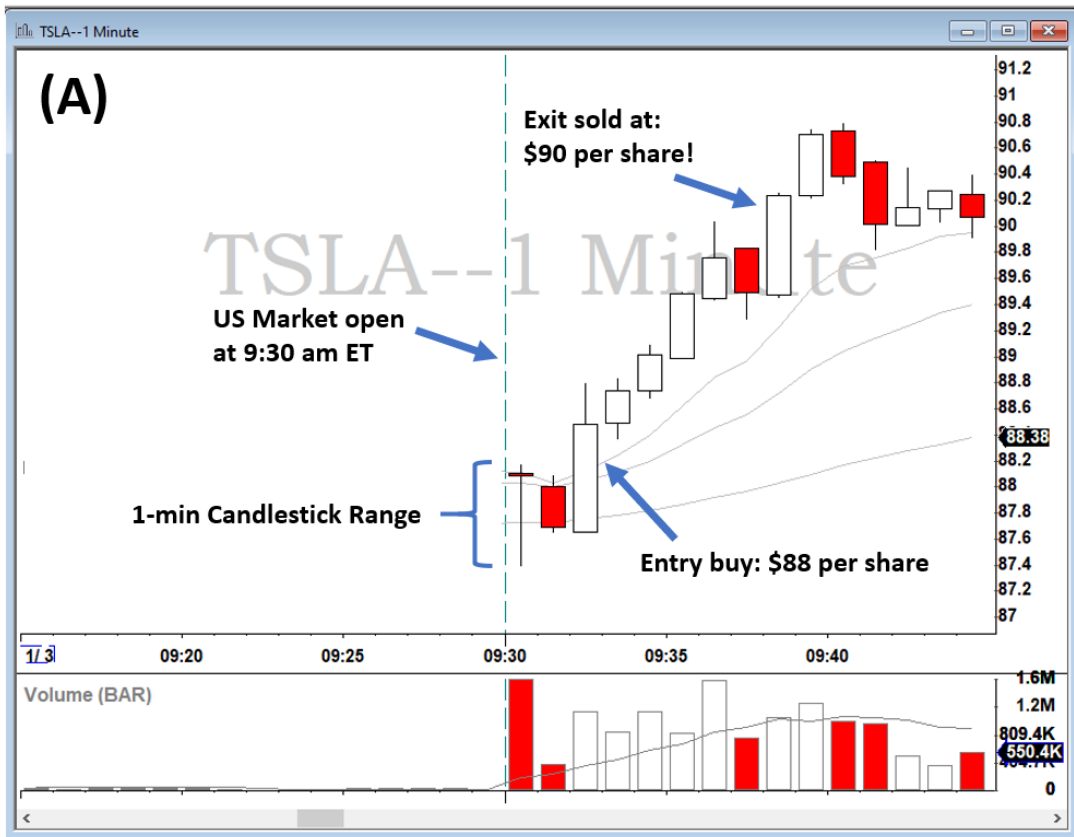
**Figure 5.4: Daily chart of Virgin Galactic Holdings Inc. (ticker: SPCE) for the winter of 2020. The days that SPCE had a high relative volume are marked with arrows. Those days were suitable for day trading SPCE. Those were the same days that the price of the stock gapped up or down. I have also marked those price gaps on this chart.**

| Symbol | Price ($) | Vol Today | Chg Close | Chg Close | Flt (Shr) | Avg True | Shrt Flt (%) | Sector |
|--------|-----------|-----------|-----------|-----------|-----------|----------|--------------|--------|
| THMO | 7.30 | 879,119 | 2.71 | 59.0 | 4.48M | 0.65 | 6.56 | Manufacturing |
| RCUS | 24.25 | 143,585 | 8.67 | 55.6 | 36.3M | 1.51 | | Manufacturing |
| BBBY | 5.17 | 1.02M | 0.73 | 16.4 | 127M | 0.69 | 85.82 | Retail Trade |
| INO | 7.65 | 650,877 | 0.51 | 7.1 | 90.3M | 0.83 | 14.49 | Manufacturing |
| TSM | 52.07 | 273,012 | 2.41 | 4.9 | 5.17B | 1.87 | | Manufacturing |
| CODX | 9.89 | 471,856 | 0.39 | 4.1 | 15.8M | 1.07 | 17.29 | Manufacturing |
| ROKU | 116.79 | 242,937 | 3.79 | 3.4 | 81.5M | 7.09 | | Information |
| AMD | 56.19 | 959,027 | 1.20 | 2.2 | 1.07B | 2.88 | 5.70 | Manufacturing |
| M | 5.85 | 180,090 | 0.12 | 2.1 | 308M | 0.77 | 32.25 | Retail Trade |
| JD | 45.53 | 129,736 | 0.93 | 2.1 | 1.22B | 2.06 | | Retail Trade |
| SPCE | 20.38 | 346,944 | 0.40 | 2.0 | 65.2M | 2.05 | 27.06 | Other Services (except Public Administration) |
| TWTR | 26.90 | 375,617 | -0.61 | -2.2 | 751M | 1.65 | | Professional, Scientific, and Technical Services |
| MS | 37.42 | 299,300 | -0.98 | -2.6 | 1.60B | 2.53 | 4.14 | Finance and Insurance |
| BP | 22.25 | 522,331 | -0.59 | -2.6 | 3.59B | 1.58 | | Mining, Quarrying, and Oil and Gas Extraction |
| SBSW | 7.20 | 130,276 | -0.20 | -2.7 | 575M | 0.68 | | Mining, Quarrying, and Oil and Gas Extraction |
| TLRY | 6.60 | 175,931 | -0.19 | -2.8 | 79.8M | 1.45 | 71.25 | Manufacturing |
| PFGC | 23.32 | 521,883 | -0.68 | -2.8 | 103M | 2.78 | 2.78 | Retail Trade |
| UAL | 30.90 | 502,356 | -0.96 | -3.0 | 247M | 4.17 | 10.58 | Transportation and Warehousing |
| SQ | 59.20 | 299,879 | -2.18 | -3.6 | 331M | 5.09 | 8.92 | Information |
| HTZ | 5.55 | 370,034 | -0.25 | -4.3 | 84.1M | 0.83 | 31.05 | Real Estate and Rental and Leasing |
| PSTI | 9.30 | 310,623 | -0.54 | -5.5 | 14.5M | 1.27 | 1.28 | Manufacturing |
| RAD | 12.86 | 815,258 | -1.62 | -11.2 | 53.4M | 1.42 | 24.83 | Retail Trade |
| CALA | 6.74 | 172,240 | -1.11 | -14.1 | 34.1M | 0.74 | 5.07 | Manufacturing |

**Figure 5.5: Screenshot of the Bear Bull Traders/Trade Ideas scanner on April 16, 2020 at 9 a.m. showing several stocks that had gapped up or down in price by more than 2%.**
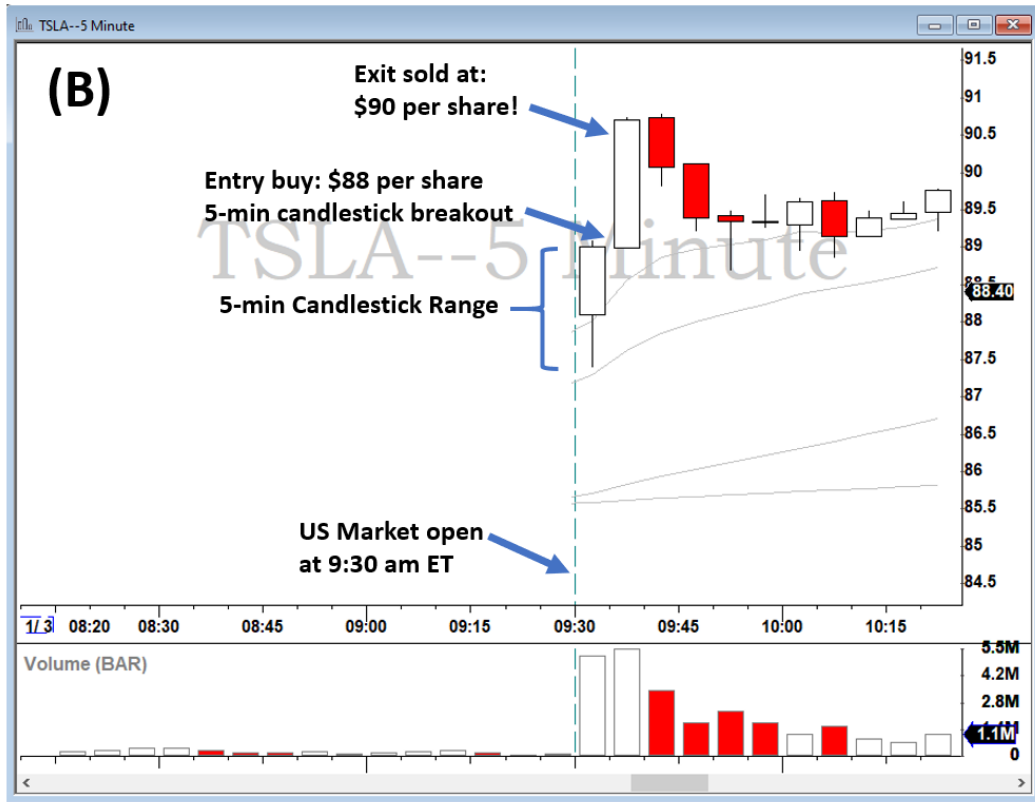
**(A)**

TSLA--1 Minute

Exit sold at:
$90 per share!

US Market open
at 9:30 am ET

1-min Candlestick Range

Entry buy: $88 per share

Volume (BAR)

**Figure 5.6: Examples of (A) 1-minute ORB and (B) 5-minute ORB on Tesla Inc. (ticker: TSLA) on January 3, 2020.**
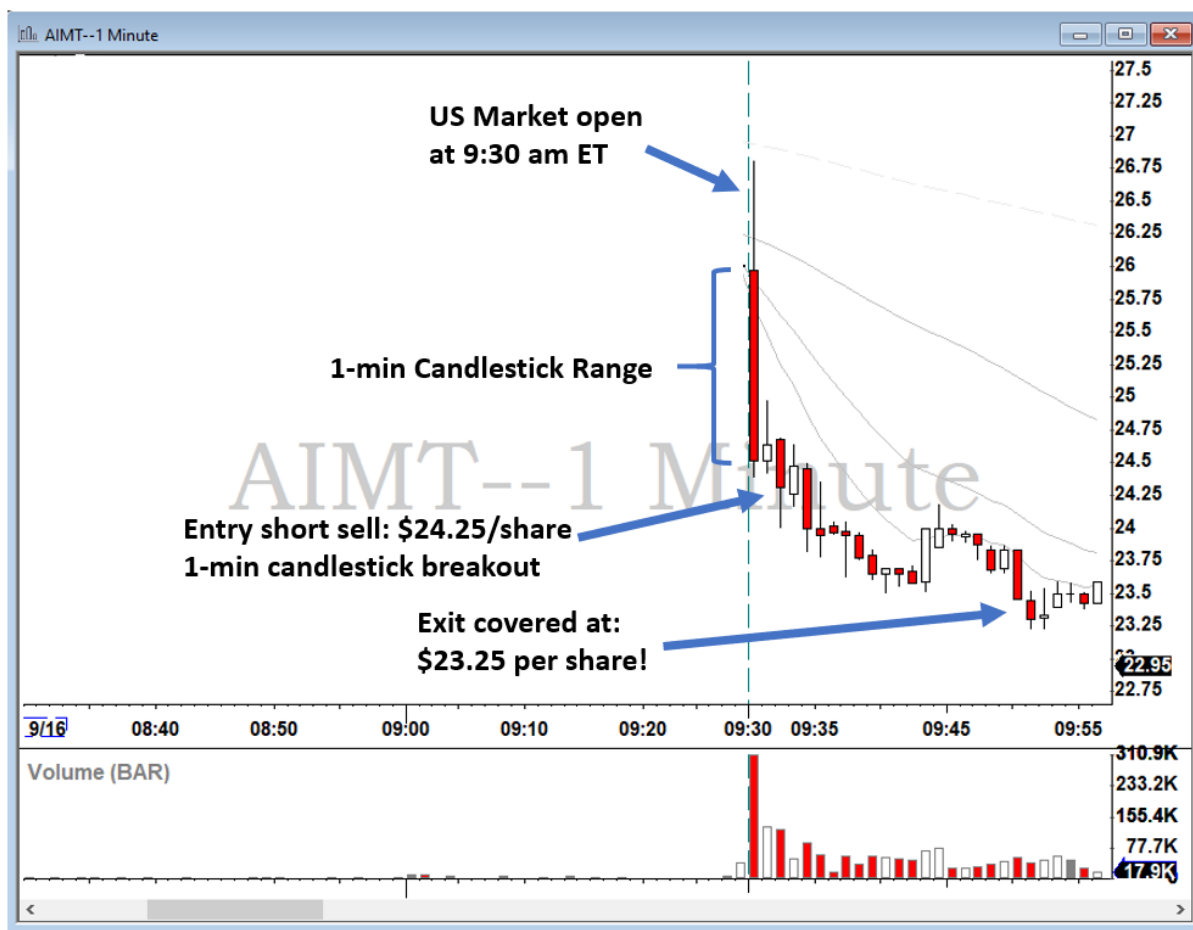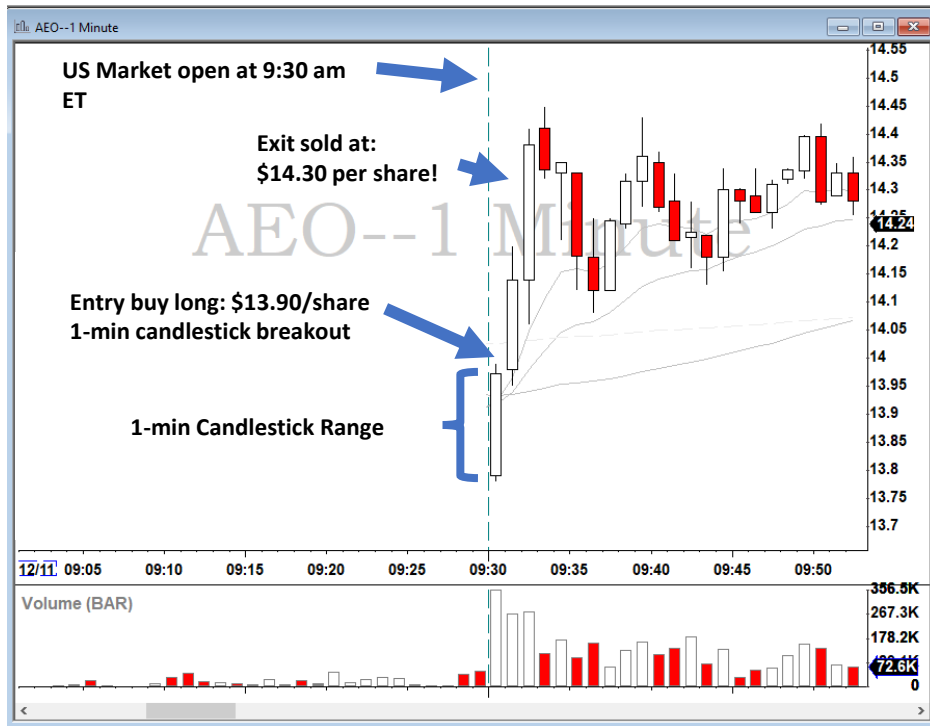
**Figure 5.7: Example of 1-minute ORB (on the short side) on Aimmune Therapeutics Inc. (ticker: AIMT).**

**Figure 5.8: Example of a 1-minute ORB on American Eagle Outfitters Inc. (ticker: AEO) on December 11, 2019.**
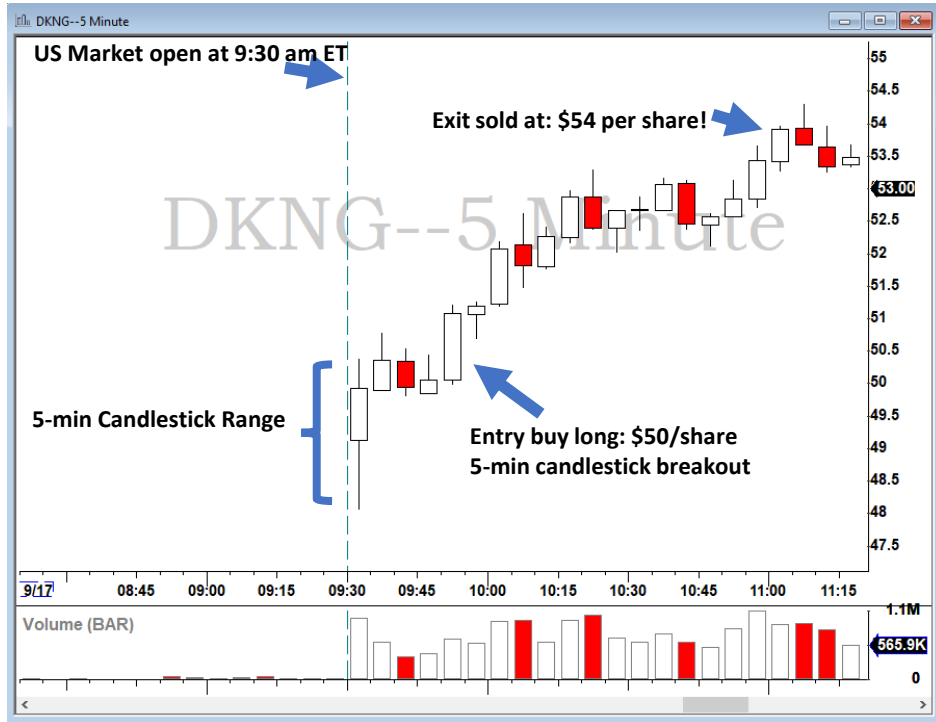
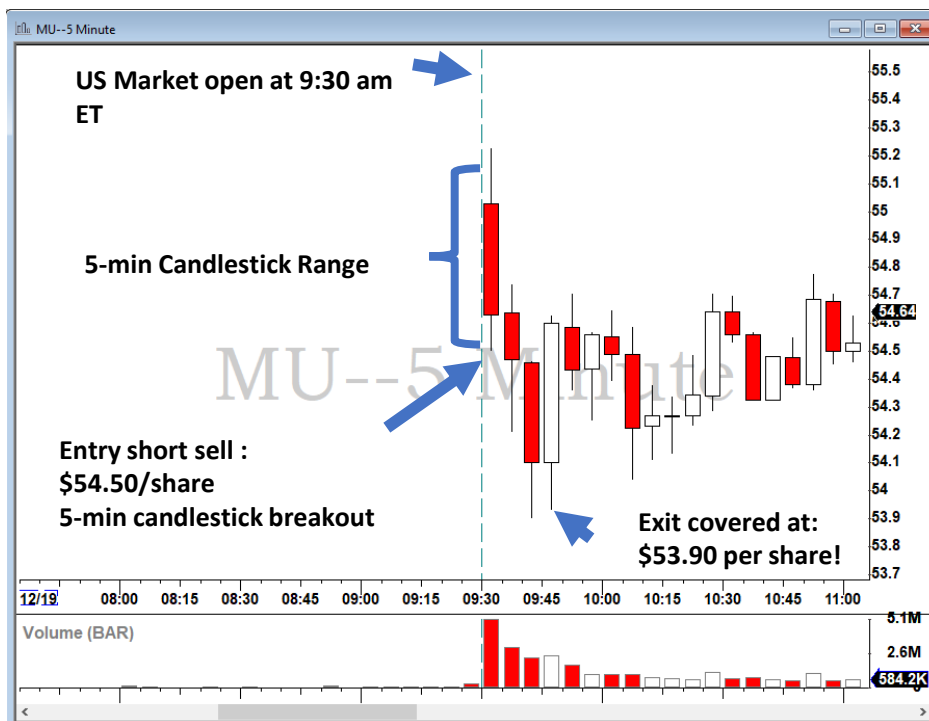**Figure 5.9: Example of a 5-minute ORB on DraftKing (ticker: DKNG).**

**Figure 5.10: Example of a 5-minute ORB on Micron Technology, Inc. (ticker: MU) on December 19, 2019.**

**Figure 5.11: Example of a 5-minute ORB on NIO, Inc. (ticker: NIO) on September 17, 2020.**
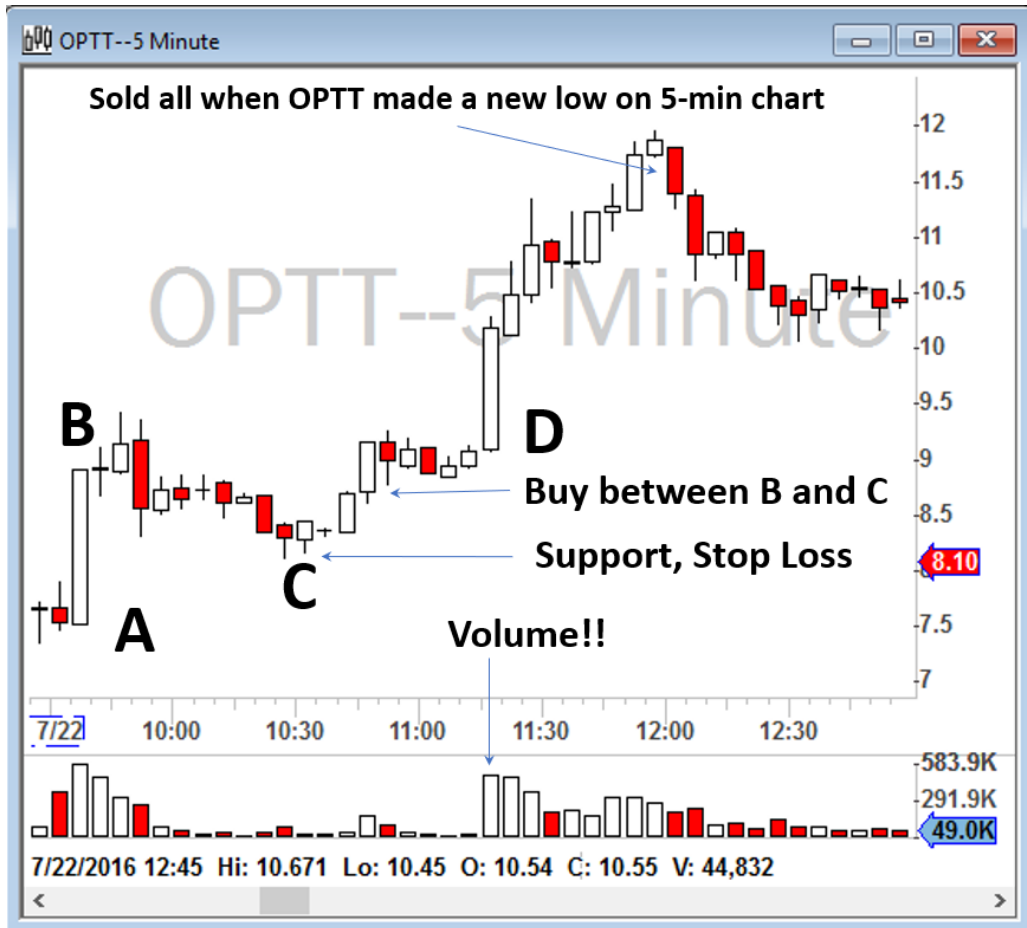
**Figure 5.12: Example of an ABCD Pattern on Ocean Power Technologies, Inc. (ticker: OPTT).**

**Figure 5.13: Example of an ABCD Pattern and an abcd pattern on SkyPeople Fruit Juice (ticker: SPU).**
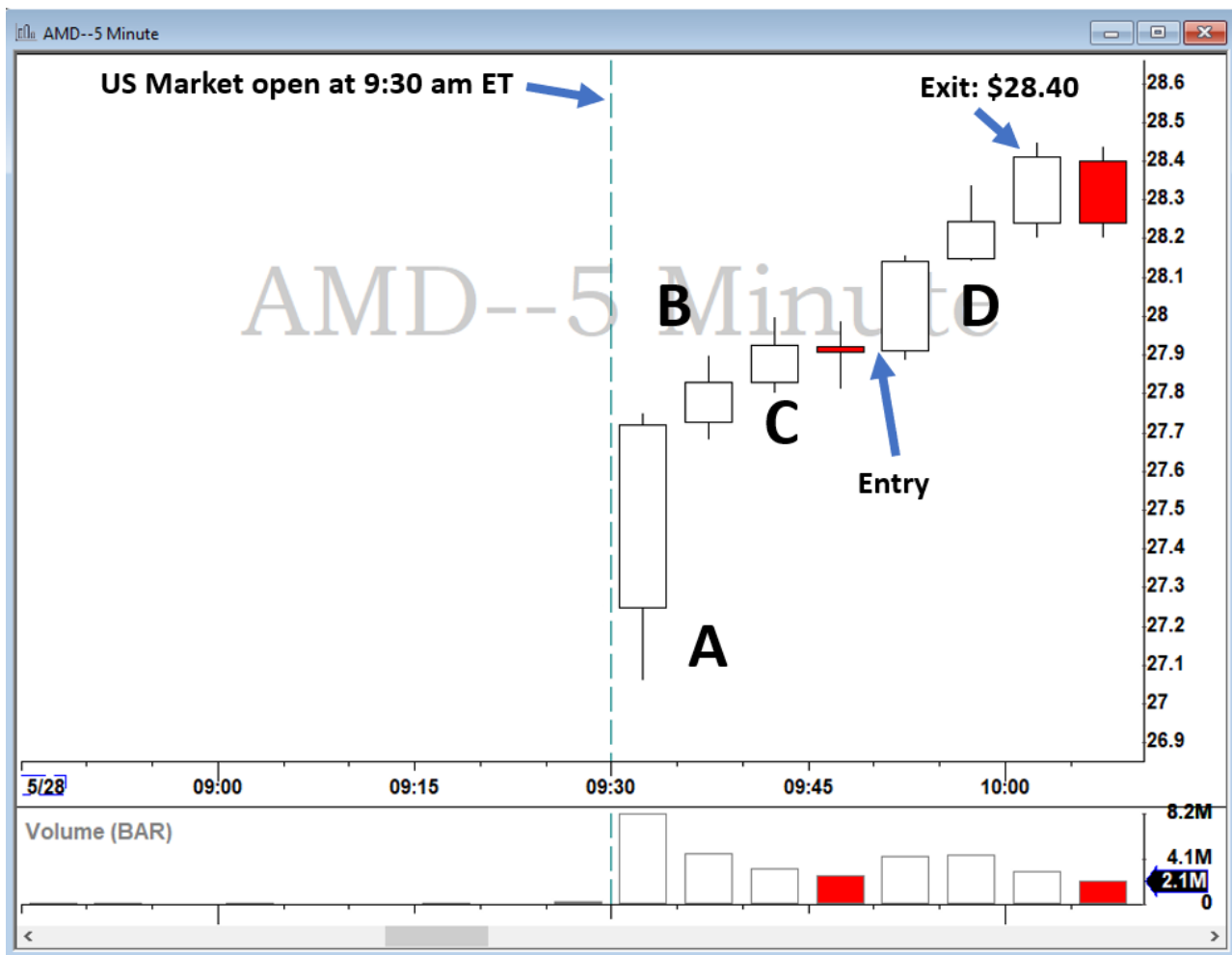
**Figure 5.14: Example of an ABCD Pattern on Advanced Micro Devices, Inc. (ticker: AMD).**
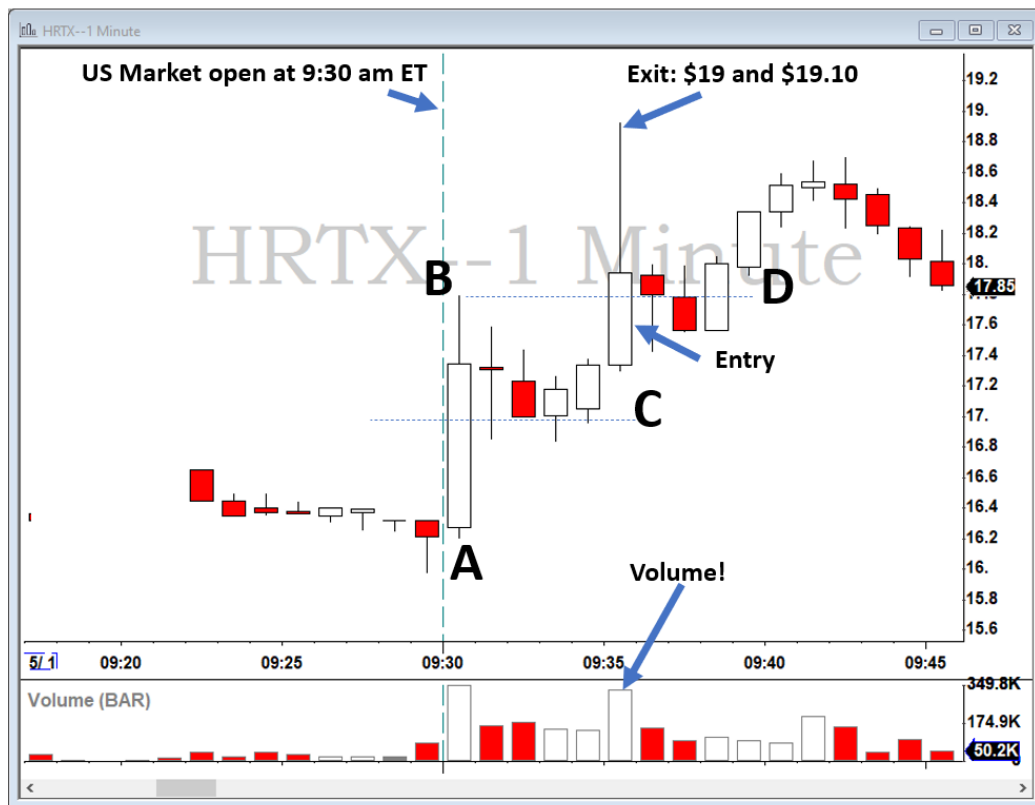
**Figure 5.20: Example of a trade on Heron Therapeutics Inc. (ticker: HRTX).**

# CHAPTER 6

★☆☆☆☆ **Negative outlook**

By D. Carroll on June 4, 2017

Format: Paperback | **Verified Purchase**

Book was very negative, depressing. Stopped reading it because of the constant reminder of failure.

5 people found this helpful

| Helpful | ▸ 1 comment | Report abuse |

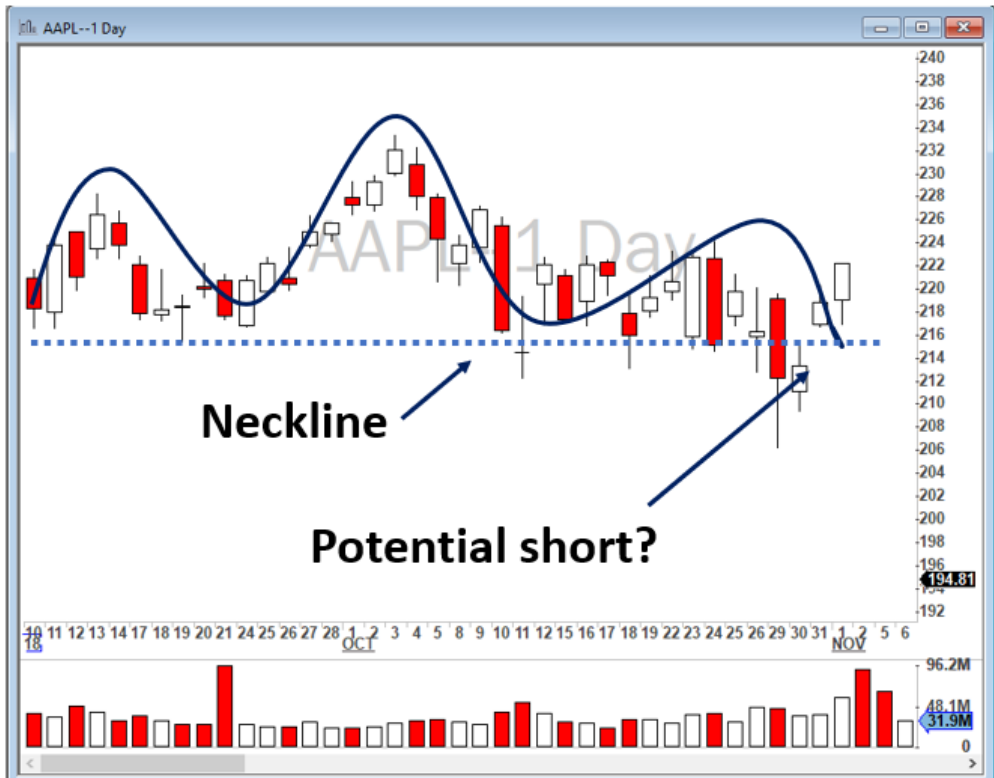*Figure 8.2 - What  one  reader did not like about my first book.*

# CHAPTER 7

**Figure 7.1: Example of the share price of Apple Inc. (ticker: AAPL) forming a perfect Head and Shoulders Pattern on a daily chart in the autumn of 2019. Buyers were not able to push the price back up to the level of the head, and thus the pattern of a right shoulder was formed.**

**Figure 7.2: Continuing the example of the Head and Shoulders Pattern set out in Figure 7.1, the price of shares of Apple Inc. (ticker: AAPL) dropped after buyers were not able to return the price to the $232/share level. One would expect the price of the stock to fall the difference between where the image of the right shoulder's neckline placed on the chart ($215) and where the top of the image of the head reached on the chart ($232). Accordingly, $232-$215=$17. The price of the stock in fact fell to the $180 level.**
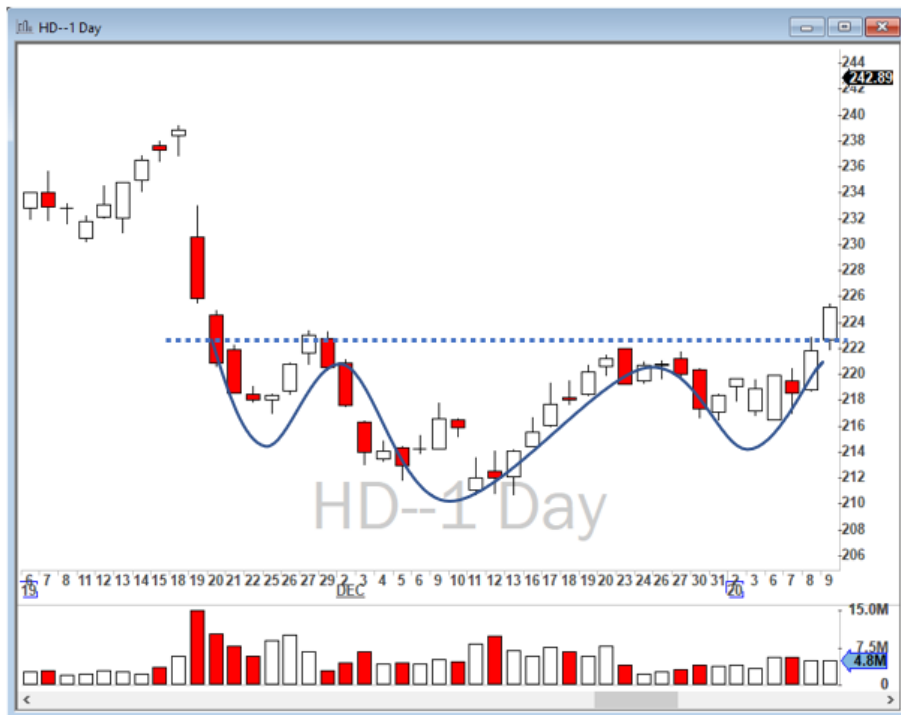
**Figure 7.3: Example of the share price of Home Depot Inc. (ticker: HD) forming a Reverse Head and Shoulders Pattern on its daily chart in late 2019 and early 2020.**

**Figure 7.4: Continuing the example of the Reverse Head and Shoulders Pattern set out in Figure 7.3, the price of shares of Home Depot Inc. (ticker: HD) increased after sellers were not able to push the price down to the previous $212/share level. Buyers then took control and pushed the price higher.**
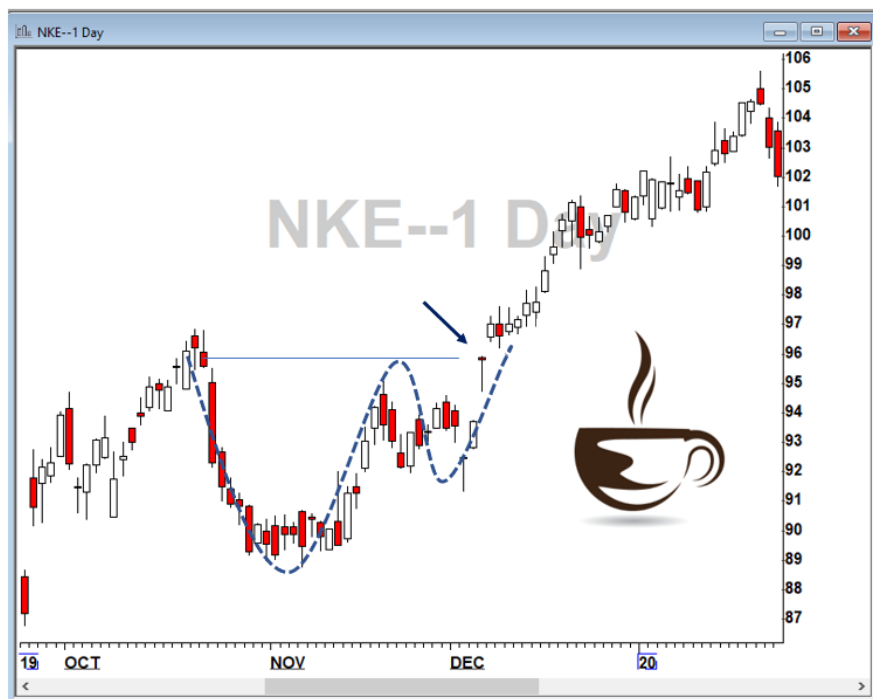
**Figure 7.5: Example of a Cup and Handle Pattern (followed by an uptrend) formed on the price chart of Nike Inc. (ticker: NKE) in late 2019 and early 2020.**
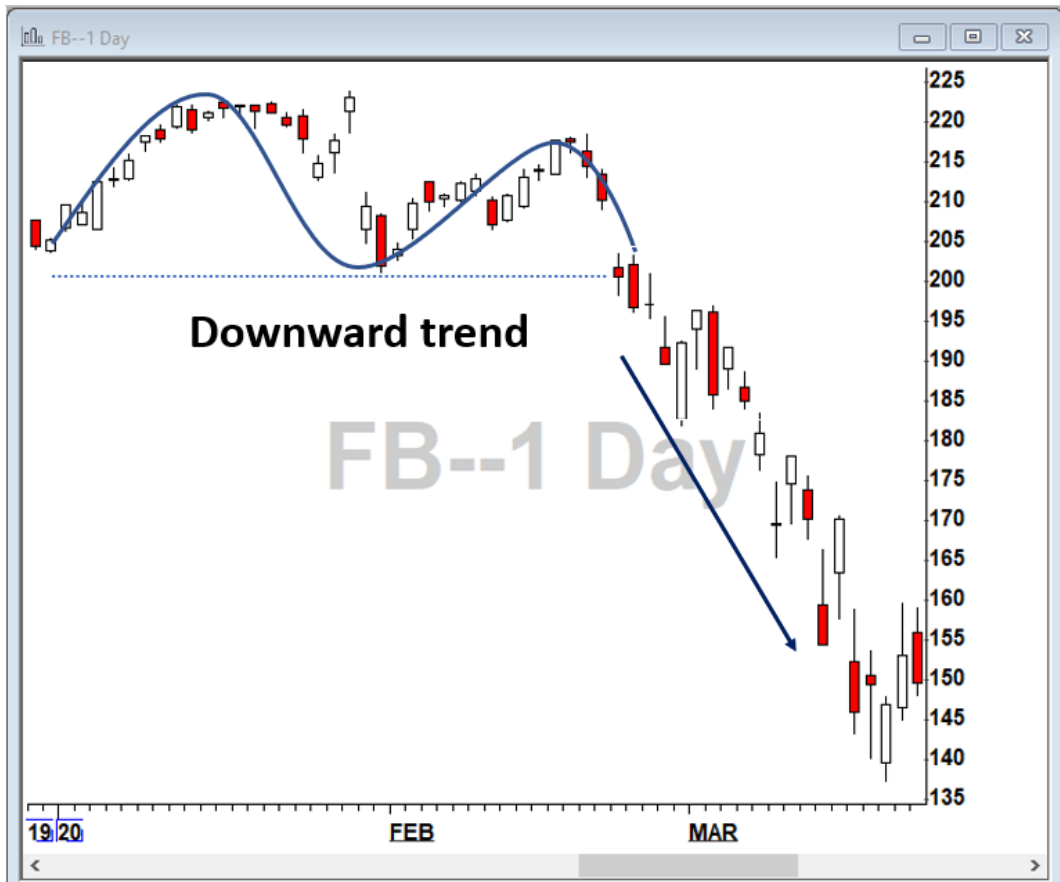
**Figure 7.6: Example of a Reverse Cup and Handle Pattern on the price chart of Facebook Inc. (ticker: FB). Sellers took control after buyers were not able to return the price of the stock to the level where the image of the bottom of a cup was formed on the price chart. This resulted in the formation of an image of a reversed handle on the price chart. This Reverse Cup and Handle Pattern indicated a breaking of the upward trend in the price of Facebook's stock.**

*Figure 4x: Nicholas Darvas standing outside the NewYork Stock Exchange in 1959, after he made his first million using his strategy*
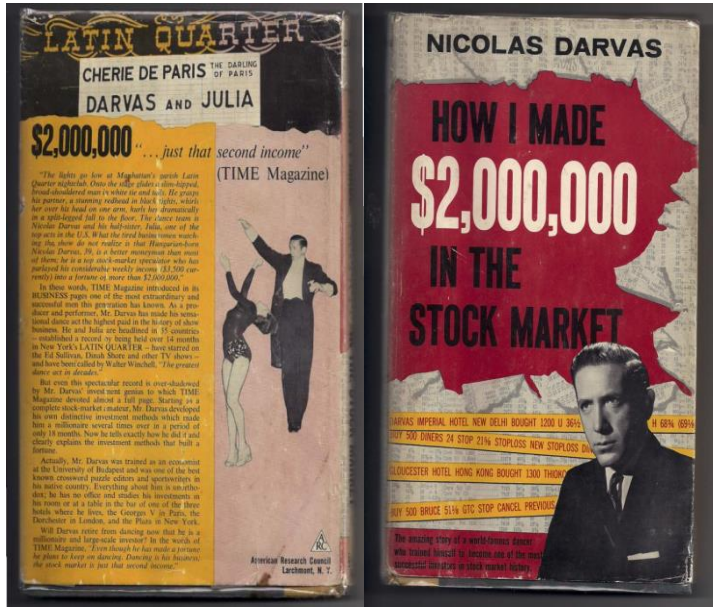
**Figure 7.8: The front and back cover of Nicolas Darvas' book discussing his strategy, first published in 1960**

**Figure 7.9: The daily chart of Walmart (ticker: WMT), showing Walmart trading between support and resistance levels in September and October 2018. I have drawn what is called a Darvas Box on the chart. As soon as the stock broke above the resistance level of $96.72/share, the volume of shares being traded increased and the stock was pushed into an uptrend.**
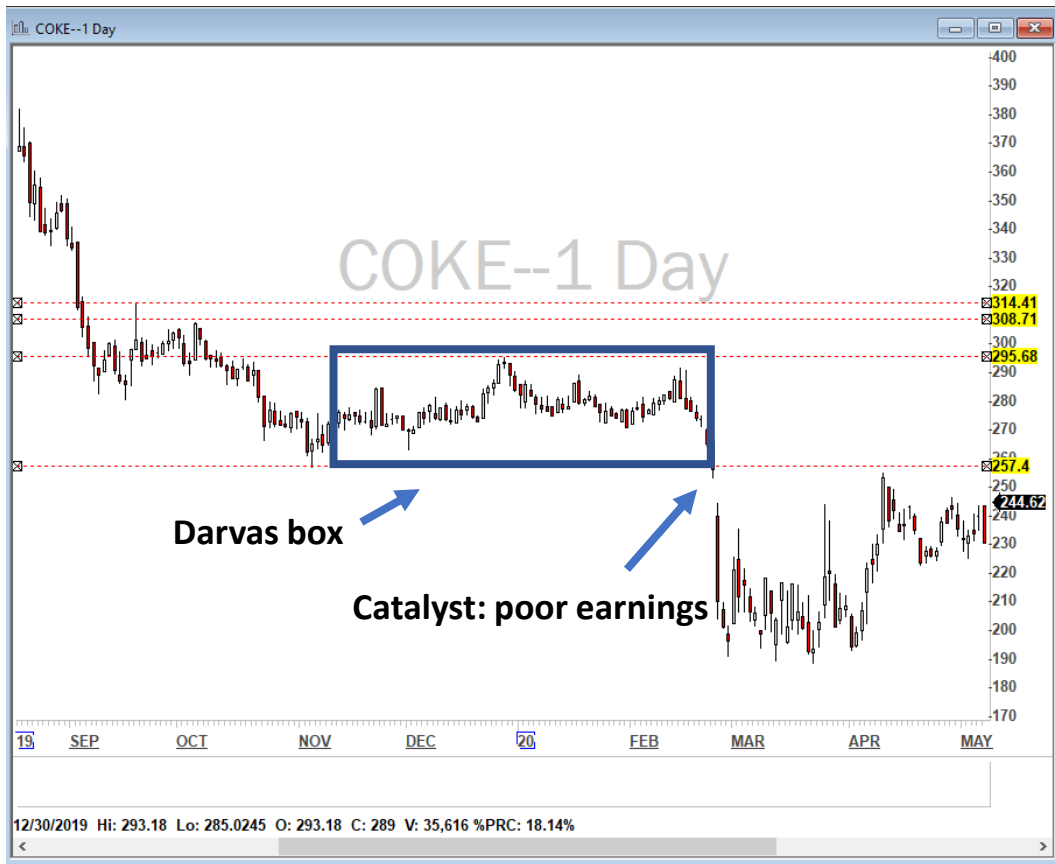
**Figure 7.10: The price chart of Coca-Cola Consolidated Inc. (ticker: COKE) for the last half of 2019 and the first months of 2020. This is an excellent example of a Darvas Box. The stock had been trading between clear support and resistance levels for over 5 months. As soon as the price of shares broke the support level, trading volume increased and pushed the price of the stock into a downward trend.**
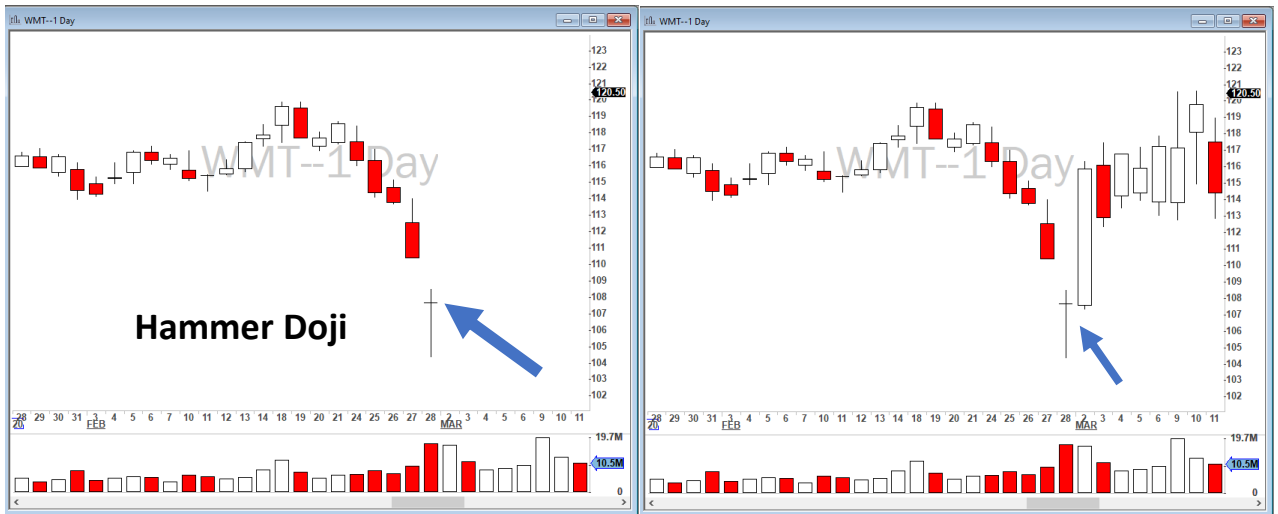
**Figure 7.11: The price chart of Walmart Inc. (ticker: WMT). The formation of a hammer Doji (as I've marked) demonstrated a lack of conviction amongst sellers. This signaled that buyers might very likely take control and push the price of the stock back up, and that is indeed what happened.**
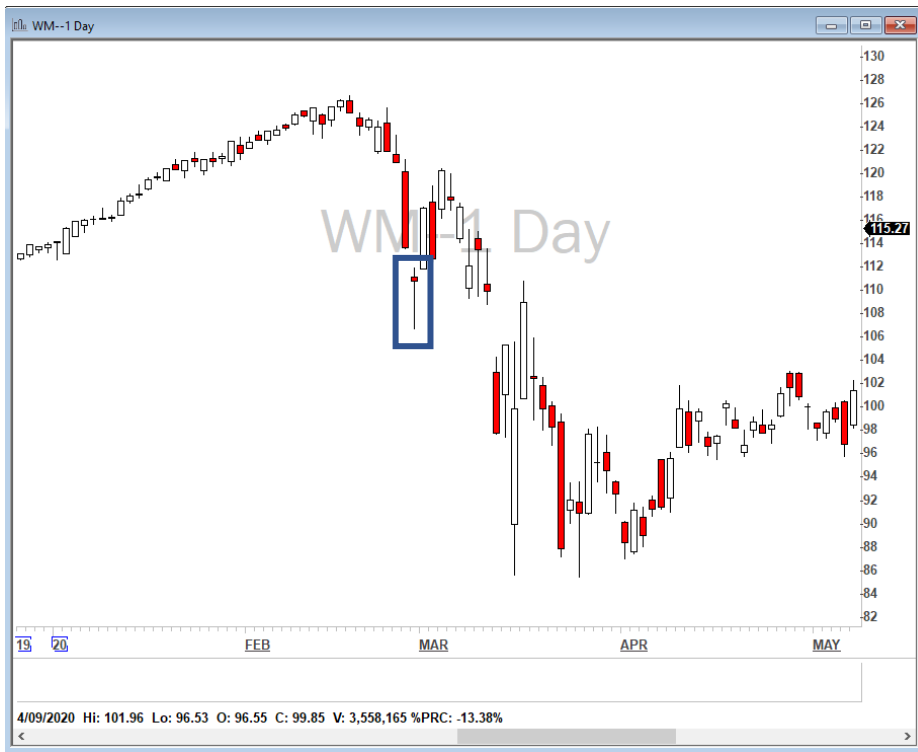
**Figure 7.12: The price chart of Waste Management, Inc. (ticker: WM). The formation of a hammer Doji (as I've marked) demonstrated that sellers were exhausted. This signaled to buyers that the downtrend in the price of the stock may be coming to an end. Buyers then in fact did take control and pushed the price of the stock back up.**

**Figure 7.13: The price chart of The Kroger Company (ticker: KR), with the hammer Doji marked that was formed on February 28, 2020. This hammer Doji demonstrated exhaustion amongst sellers. The next trading day (March 2, 2020), the price of the stock bounced back and began its upward move.**

**Figure 7.14: The daily chart of Long Blockchain Corp. (ticker: LBCC), formerly known as Long Island Iced Tea Corp. (ticker: LTEA). In December 2017, the corporation rebranded as part of a corporate shift toward "exploration of and investment in opportunities that leverage the benefits of blockchain technology" and reported that they were exploring blockchain-related acquisitions.**

**Figure 7.15: The weekly chart for Tesla Inc. (ticker: TSLA) demonstrates a perfect example of a hot sector mania.**

**Figure 7.16: Daily charts showing the increase in value of stock of Moderna, Inc. (ticker: MRNA) and Novavax, Inc. (ticker: NVAX). The gains in price commenced in late February 2020 during the early stages of the COVID-19 pandemic.**
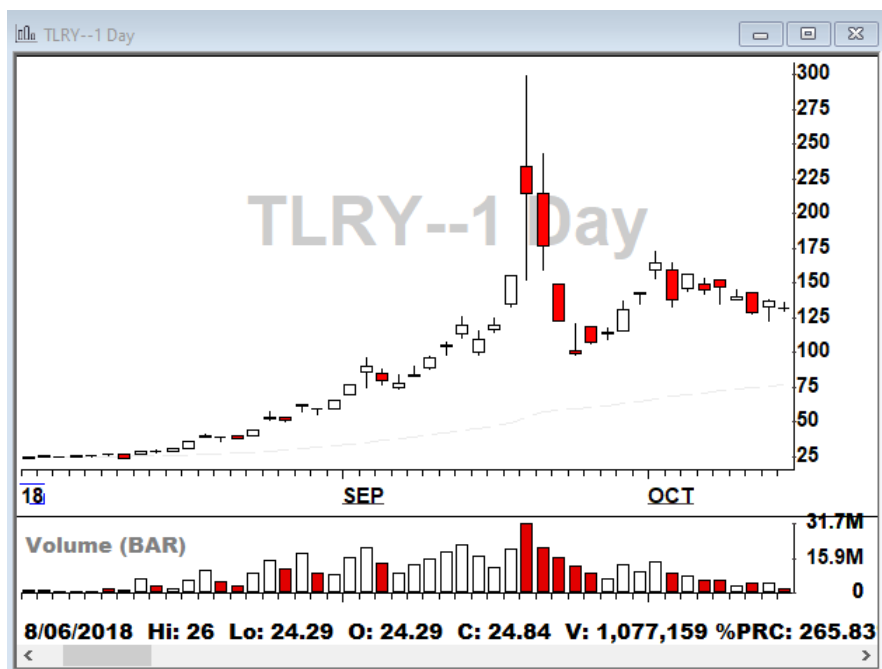
**Figure 7.18: The daily chart of Tilray, Inc. (ticker: TLRY). Marijuana stocks were once upon a time a hot sector mania. As of June 11, 2020 though, TLRY was trading at $8.37/share.**
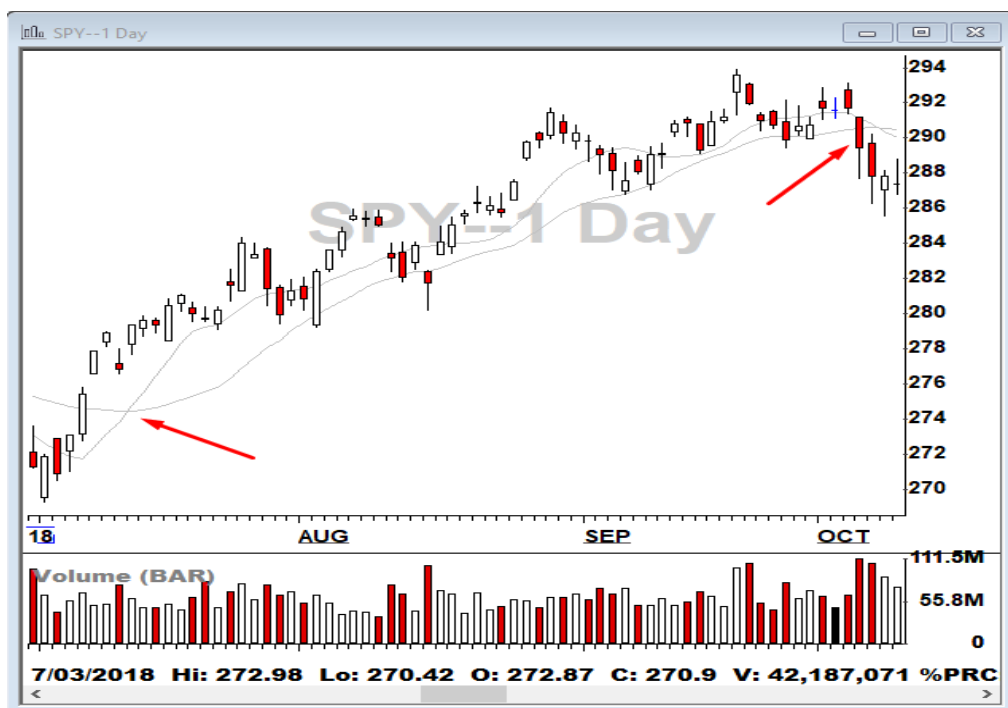
**Figure 7.19: An example of a Moving Average Crossover Strategy marked out on the daily chart of SPDR S&P 500 ETF Trust (ticker: SPY). The first time the 9 and 20 moving average indicators crossed each other marked the place to enter your trade (in July 2018). When the 9 and 20 moving averages crossed again, it was a signal to sell and take your profit (in October 2018).**

**Figure 7.20: An example of a Moving Average Crossover Strategy on Apple Inc. (ticker: AAPL). You could go short and enter the trade when the 9 and 20 moving averages cross each other on your chart (which I have marked in February 2020) and you would cover your position and take your profit when the 9 and 20 moving averages cross each other again on your chart (which I have marked in April 2020).**

# CHAPTER 8
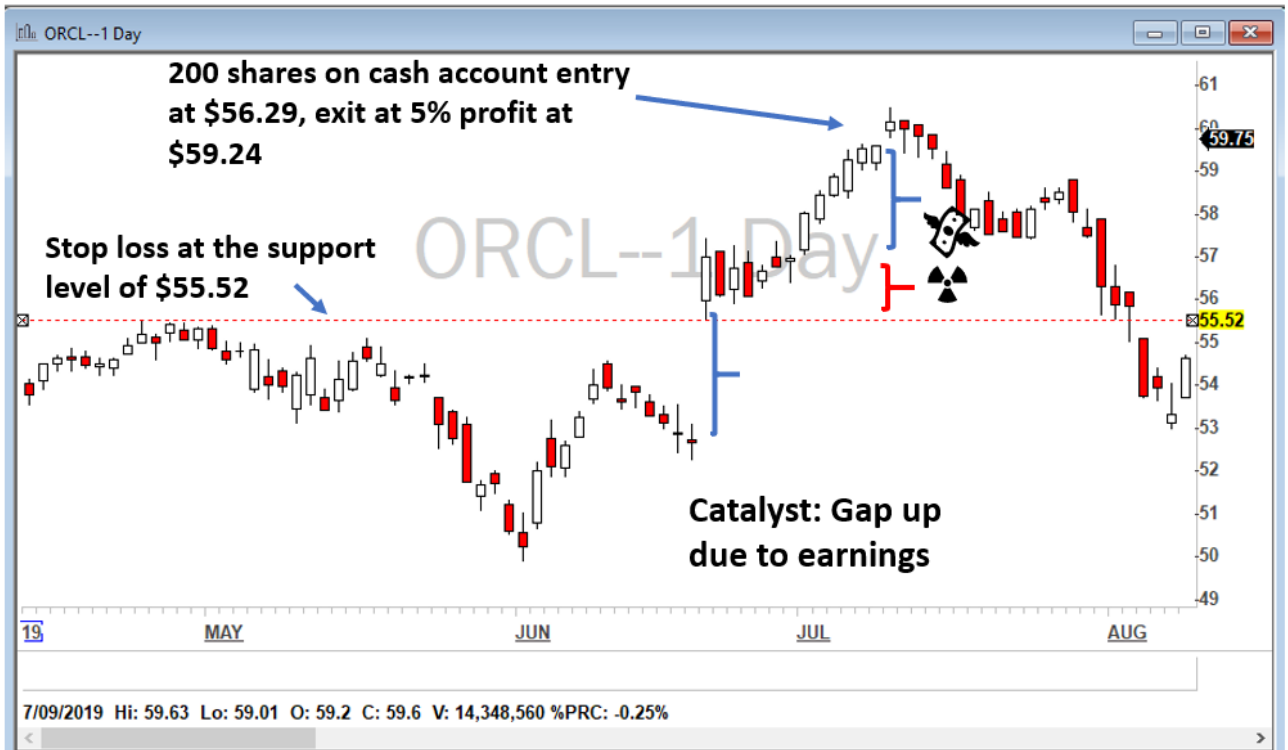
**Figure 8.1: An example from my trading journal. I include simple commentary on what led me to enter this trade of shares in Oracle Corporation (ticker: ORCL) as well as the end result of the trade, all in order to help me fine-tune my strategies.**
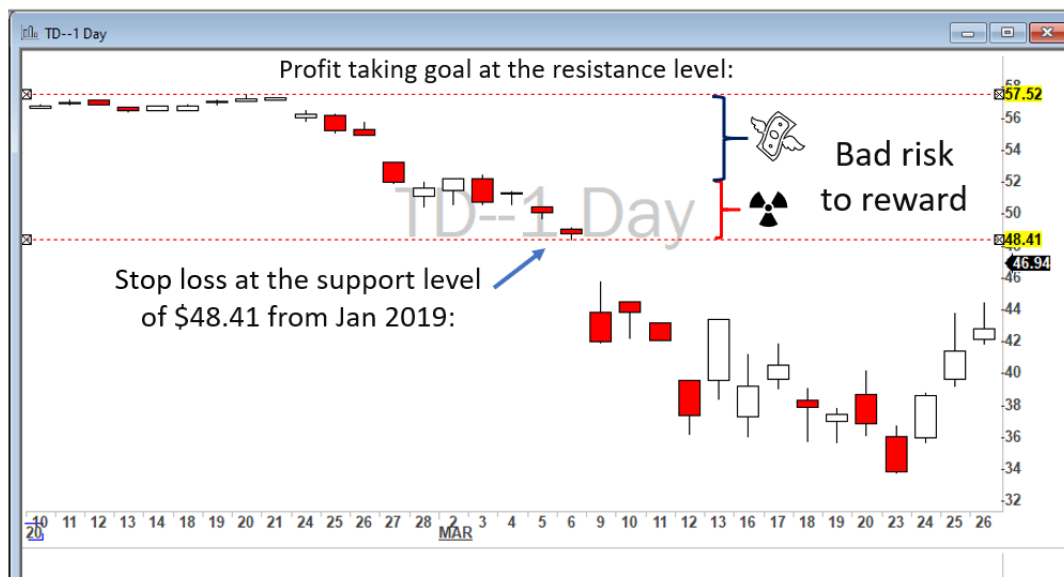
**Figure 8.2: An example from my trading journal of an unprofitable trade in early 2020 on Toronto-Dominion Bank (ticker: TD). It is important to journal your losing trades as well as your winning trades.**

Figure 8.3: Andrew and his famous "low float garbage stock" T-shirt. You are right, Andrew! Low floats are garbage!

# CHAPTER 9

**Figure 9.1: Performance of Shopify Inc. (ticker: SHOP) between June 2015 and May 2020. A $56,000 investment in 2016 would have been worth more than $1,000,000 in 2020.**
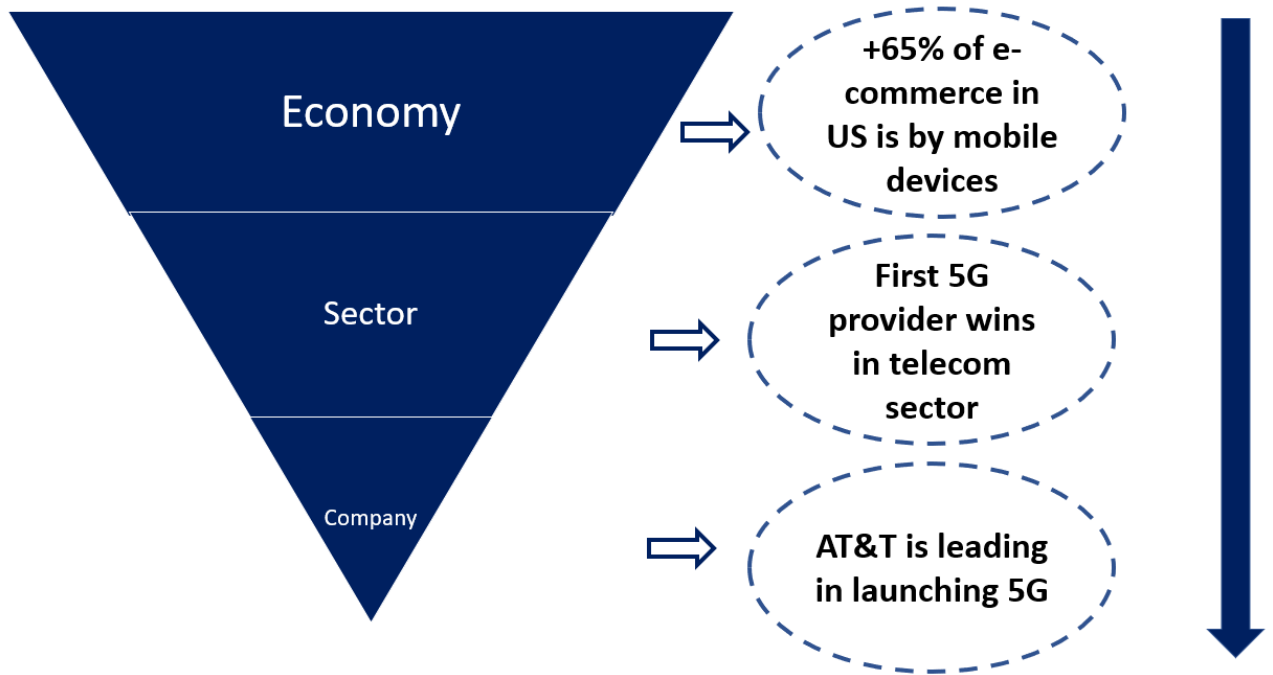
**Figure 9.2: Example of a top-down approach in identifying a target company. You start with a review of the overall economy and then you work your way down.**
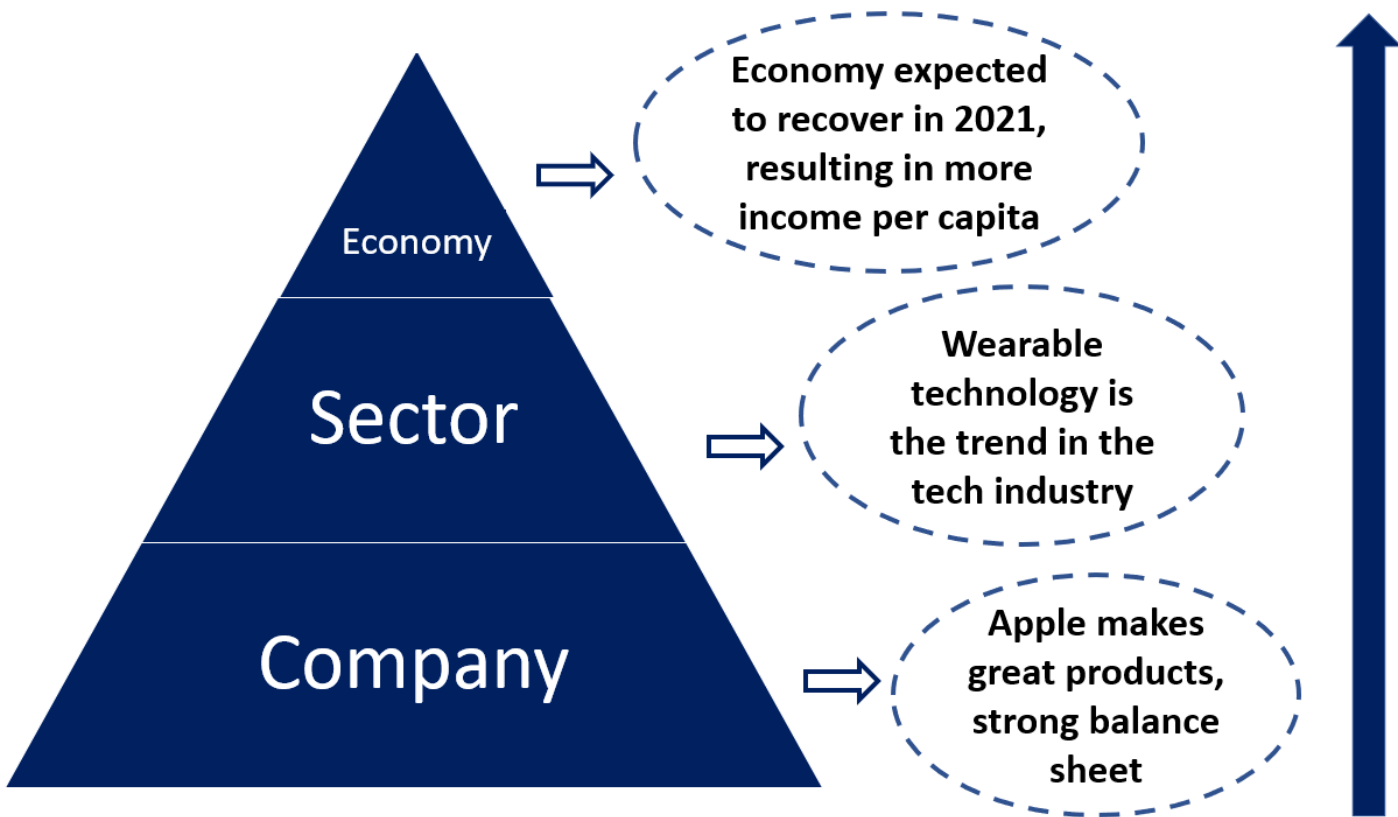
**Figure 9.3: Example of a bottom-up approach in identifying stocks for investing. You start by reviewing a specific company that interests you and you then work your way up, validating your hypothesis**

**Apple Inc. (AAPL)**
NasdaqGS - NasdaqGS Real Time Price. Currency in USD

**241.41** -3.52 (-1.44%)   **241.25** -0.16 (-0.07%)
At close: 4:00PM EDT          After hours: 7:58PM EDT

Summary   Chart   Conversations   Statistics   Historical Data   Profile   **Financials**   Analysis   Options   Holders   Sustainab

Show: **Income Statement** | Balance Sheet | Cash Flow          Annual | Quarterly | 🔒 Download Data

**Income Statement**   All numbers in thousands

| Breakdown | TTM | 2019-09-30 | 2018-09-30 | 2017-09-30 |
|---|---|---|---|---|
| Total Revenue | 267,683,000 | 260,174,000 | 265,595,000 | 229,234,000 |
| Cost of Revenue | 166,105,000 | 161,782,000 | 163,756,000 | 141,048,000 |
| Gross Profit | 101,578,000 | 98,392,000 | 101,839,000 | 88,186,000 |
| ⌄ Operating Expenses | | | | |
| Research Development | 16,766,000 | 16,217,000 | 14,236,000 | 11,581,000 |
| Selling General and Administrati··· | 18,659,000 | 18,245,000 | 16,705,000 | 15,261,000 |
| **Total Operating Expenses** | 35,425,000 | 34,462,000 | 30,941,000 | 26,842,000 |
| **Operating Income or Loss** | 66,153,000 | 63,930,000 | 70,898,000 | 61,344,000 |
| Interest Expense | 3,471,000 | 3,576,000 | 3,240,000 | 2,323,000 |
| Total Other Income/Expenses Net | 368,000 | 422,000 | -441,000 | -133,000 |
| Income Before Tax | 67,749,000 | 65,737,000 | 72,903,000 | 64,089,000 |
| Income Tax Expense | 10,222,000 | 10,481,000 | 13,372,000 | 15,738,000 |
| Income from Continuing Operations | 57,527,000 | 55,256,000 | 59,531,000 | 48,351,000 |
| **Net Income** | 57,527,000 | 55,256,000 | 59,531,000 | 48,351,000 |

**Figure 9.4: Example of an income statement from Yahoo Finance for Apple Inc. (ticker: AAPL).**

**Figure 9.5: Screenshot of the Reuters Stock Screener. This is a very useful tool to identify worthwhile stocks in either the growth or value bucket.**

| Company | Ticker | Annual Dividend | Price per share as of April 17th, 2020 | Dividend Yield | Schedule |
|---|---|---|---|---|---|
|  | AAPL | $3.08 | $282.80 | 1.09% | Paid quarterly |
|  | CVX | $5.16 | $87.17 | 5.92% | Paid quarterly |
|  | MCD | $5.00 | $186.10 | 2.69% | Paid quarterly |
|  | DIS | $1.76 | $106.63 | 1.65% | Paid semi-annual |

**Figure 9.6: Four of the 30 Dow Jones Industrial Average index companies along with their dividend yield.**

## Income Statement   All numbers in thousands

| Breakdown | TTM | 2019-09-30 | 2018-09-30 | 2017-09-30 |
|---|---|---|---|---|
| Total Revenue | 267,683,000 | 260,174,000 | 265,595,000 | 229,234,000 |
| Cost of Revenue | 166,105,000 | 161,782,000 | 163,756,000 | 141,048,000 |
| Gross Profit | 101,578,000 | 98,392,000 | 101,839,000 | 88,186,000 |
| ⌄ Operating Expenses | | | | |
|    Research Development | 16,766,000 | 16,217,000 | 14,236,000 | 11,581,000 |
|    Selling General and Administrati… | 18,659,000 | 18,245,000 | 16,705,000 | 15,261,000 |
|    **Total Operating Expenses** | 35,425,000 | 34,462,000 | 30,941,000 | 26,842,000 |
| **Operating Income or Loss** | 66,153,000 | 63,930,000 | 70,898,000 | 61,344,000 |
| Interest Expense | 3,471,000 | 3,576,000 | 3,240,000 | 2,323,000 |
| Total Other Income/Expenses Net | 368,000 | 422,000 | -441,000 | -133,000 |
| Income Before Tax | 67,749,000 | 65,737,000 | 72,903,000 | 64,089,000 |
| Income Tax Expense | 10,222,000 | 10,481,000 | 13,372,000 | 15,738,000 |
| Income from Continuing Operations | 57,527,000 | 55,256,000 | 59,531,000 | 48,351,000 |
| **Net Income** | 57,527,000 | 55,256,000 | 59,531,000 | 48,351,000 |
| Net Income available to common s… | 57,527,000 | 55,256,000 | 59,531,000 | 48,351,000 |
| Basic EPS | - | 11.97 | 12.01 | 9.27 |
| Diluted EPS | - | 11.89 | 11.91 | 9.21 |
| Basic Average Shares | - | 4,617,834 | 4,955,377 | 5,217,242 |
| Diluted Average Shares | - | 4,648,913 | 5,000,109 | 5,251,692 |
| EBITDA | - | 81,860,000 | 87,046,000 | 76,569,000 |

**Figure 9.7: Apple Inc. (ticker: AAPL) income statement. You can calculate a company's gross margin by simply dividing its gross profit by its gross (total) revenue. A company's net margin is calculated by dividing its net income by its gross (total) revenue.**
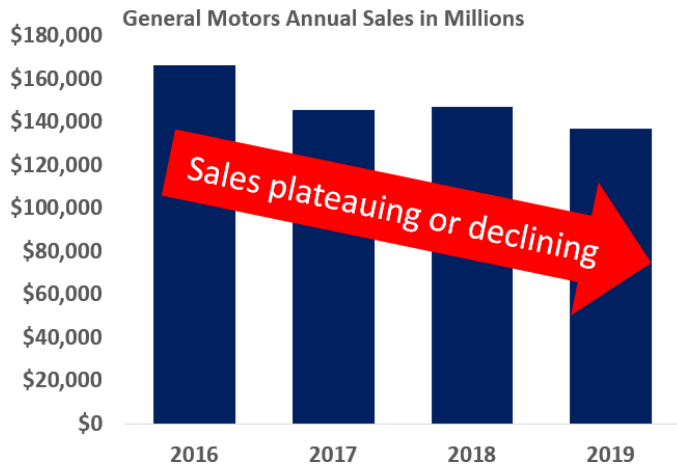
**Figure 9.8: Shopify Inc. (ticker: SHOP) revenue vs. General Motors Company (ticker: GM) sales. With a simple trend analysis, you can see which company is growing and which has been stagnant. As a rule of thumb, avoid companies with declining sales.**

**Income Statement**    All numbers in thousands

| Breakdown | TTM | 2019-09-30 | 2018-09-30 | 2017-09-30 |
|---|---|---|---|---|
| Total Revenue | 26,973,000 | 26,508,600 | 24,719,500 | 22,386,800 |
| Cost of Revenue | 19,315,800 | 19,020,500 | 17,367,700 | 15,531,500 |
| Gross Profit | 7,657,200 | 7,488,100 | 7,351,800 | 6,855,300 |
| ⌄ Operating Expenses | | | | |
|    Selling General and Administrati… | 1,810,300 | 1,824,100 | 1,759,000 | 1,393,300 |
| **Total Operating Expenses** | 3,580,400 | 3,572,400 | 3,545,300 | 2,958,500 |
| **Operating Income or Loss** | 4,076,800 | 3,915,700 | 3,806,500 | 3,896,800 |
| Interest Expense | 347,900 | 331,000 | 170,300 | 92,500 |
| Total Other Income/Expenses Net | 828,000 | 785,000 | 1,952,400 | 237,900 |
| Income Before Tax | 4,644,500 | 4,466,200 | 5,780,000 | 4,317,500 |
| Income Tax Expense | 925,000 | 871,600 | 1,262,000 | 1,432,600 |
| Income from Continuing Operations | 3,719,500 | 3,594,600 | 4,518,000 | 2,884,900 |
| **Net Income** | 3,724,300 | 3,599,200 | 4,518,300 | 2,884,700 |
| Net Income available to common s… | 3,724,300 | 3,599,200 | 4,518,300 | 2,884,700 |
| Basic EPS | - | 3.04 | 3.45 | 2.00 |
| Diluted EPS | - | 2.92 | 3.24 | 1.97 |
| Basic Average Shares | - | 1,184,600 | 1,309,100 | 1,431,600 |
| Diluted Average Shares | - | 1,233,200 | 1,394,600 | 1,461,500 |
| EBITDA | - | 6,246,500 | 7,256,200 | 5,477,100 |

**Figure 9.9: Starbucks Corporation (ticker: SBUX) income statement. You simply divide a company's operating income or loss by its interest expense to calculate its interest coverage ratio. As you can see, Starbucks generates sufficient cash flow from its operations to easily pay the interest owing on its debt.**

| | | | | |
|---|---|---|---|---|
| ⌄ Cash | | | | |
| Cash And Cash Equivalents | 48,844,000 | 25,913,000 | 20,289,000 | 20,484,000 |
| Other Short Term Investme… | 51,713,000 | 40,388,000 | 53,892,000 | 46,671,000 |
| **Total Cash** | 100,557,000 | 66,301,000 | 74,181,000 | 67,155,000 |
| Net Receivables | 22,926,000 | 23,186,000 | 17,874,000 | 15,754,000 |
| Inventory | 4,106,000 | 3,956,000 | 4,855,000 | 2,132,000 |
| Other Current Assets | 12,352,000 | 12,087,000 | 13,936,000 | 8,283,000 |
| **Total Current Assets** | 162,819,000 | 131,339,000 | 128,645,000 | 106,869,000 |
| › Non-current assets | 175,697,000 | 234,386,000 | 246,674,000 | 214,817,000 |
| **Total Assets** | 338,516,000 | 365,725,000 | 375,319,000 | 321,686,000 |
| ⌄ Liabilities and stockholders' eq… | | | | |
| ⌄ Liabilities | | | | |
| › Current Liabilities | 105,718,000 | 116,866,000 | 100,814,000 | 79,006,000 |
| ⌄ Non-current liabilities | | | | |
| Long Term Debt | 91,807,000 | 93,735,000 | 97,207,000 | 75,427,000 |
| Deferred taxes liabilities | - | 426,000 | 31,504,000 | 26,019,000 |
| Deferred revenues | - | 2,797,000 | 2,836,000 | 2,930,000 |
| Other long-term liabilities | 20,958,000 | 11,165,000 | 8,911,000 | 10,055,000 |
| **Total non-current liabilities** | 142,310,000 | 141,712,000 | 140,458,000 | 114,431,000 |
| **Total Liabilities** | 248,028,000 | 258,578,000 | 241,272,000 | 193,437,000 |
| › Stockholders' Equity | 90,488,000 | 107,147,000 | 134,047,000 | 128,249,000 |
| **Total liabilities and stockholde…** | 338,516,000 | 365,725,000 | 375,319,000 | 321,686,000 |

**Figure 9.10: Apple Inc. (ticker: AAPL) balance sheet. You can use a company's balance sheet to locate its cash balance and calculate its current ratio and capital structure. All numbers are in the thousands.**

## Cash Flow
All numbers in thousands

| Breakdown | TTM | 2019-12-31 | 2018-12-31 | 2017-12-31 | 2016-12-31 |
|---|---|---|---|---|---|
| ∨ Cash flows from operating activ... | | | | | |
| Net Income | -862,000 | -862,000 | -976,091 | -1,961,400 | -674,914 |
| Depreciation & amortization | 2,154,000 | 2,154,000 | 1,901,050 | 1,636,003 | 947,099 |
| Stock based compensation | 898,000 | 898,000 | 749,024 | 466,760 | 334,225 |
| Change in working capital | -349,000 | -349,000 | 57,951 | -496,603 | -693,861 |
| Accounts receivable | -367,000 | -367,000 | -496,732 | -24,635 | -216,565 |
| Inventory | -429,000 | -429,000 | -1,023,264 | -178,850 | -2,465,703 |
| Other working capital | 968,000 | 968,000 | -221,714 | -4,142,008 | -1,564,300 |
| Other non-cash items | 186,000 | 186,000 | 207,237 | 284,020 | -9,216 |
| **Net cash provided by operatin...** | **2,405,000** | **2,405,000** | **2,097,802** | **-60,654** | **-123,829** |
| ∨ Cash flows from investing activi... | | | | | |
| Investments in property, plant a... | -1,437,000 | -1,437,000 | -2,319,516 | -4,081,354 | -1,440,471 |
| Acquisitions, net | -45,000 | -45,000 | -17,912 | -114,523 | - |
| Purchases of investments | - | - | - | - | 0 |
| Sales/Maturities of investments | - | - | 0 | 0 | 16,667 |

**Figure 9.11: Tesla Inc. (ticker: TSLA) partial cash flow statement. Cash flow from operations is a good indicator to confirm whether a company is able to generate cash from its operations.**

## Cash Flow

All numbers in thousands

| Breakdown | TTM | 2019-12-31 | 2018-12-31 | 2017-12-31 |
|---|---|---|---|---|
| > Cash flows from operating activ… | 8,122,100 | 8,122,100 | 6,966,700 | 5,551,200 |
| ∨ Cash flows from investing activi… | | | | |
| Investments in property, plant a… | -2,393,700 | -2,393,700 | -2,741,700 | -1,853,700 |
| Acquisitions, net | -540,900 | -540,900 | -101,700 | -77,000 |
| Other investing activites | -628,500 | -628,500 | -302,900 | -245,900 |
| Net cash used for investing act… | -3,071,100 | -3,071,100 | -2,455,100 | 562,000 |
| ∨ Cash flows from financing activ… | | | | |
| Debt repayment | -2,061,900 | -2,061,900 | -1,759,600 | -1,649,400 |
| Common stock repurchased | -4,976,200 | -4,976,200 | -5,207,700 | -4,685,700 |
| Dividends Paid | -3,581,900 | -3,581,900 | -3,255,900 | -3,089,200 |
| Other financing activites | -23,500 | -23,500 | -20,000 | -20,500 |
| Net cash used privided by (use… | -4,994,800 | -4,994,800 | -5,949,600 | -5,310,800 |

**Figure 9.12: McDonald's Corporation (ticker: MCD) cash flow statement. You will see that McDonald's consistently buys back shares and pays dividends.**
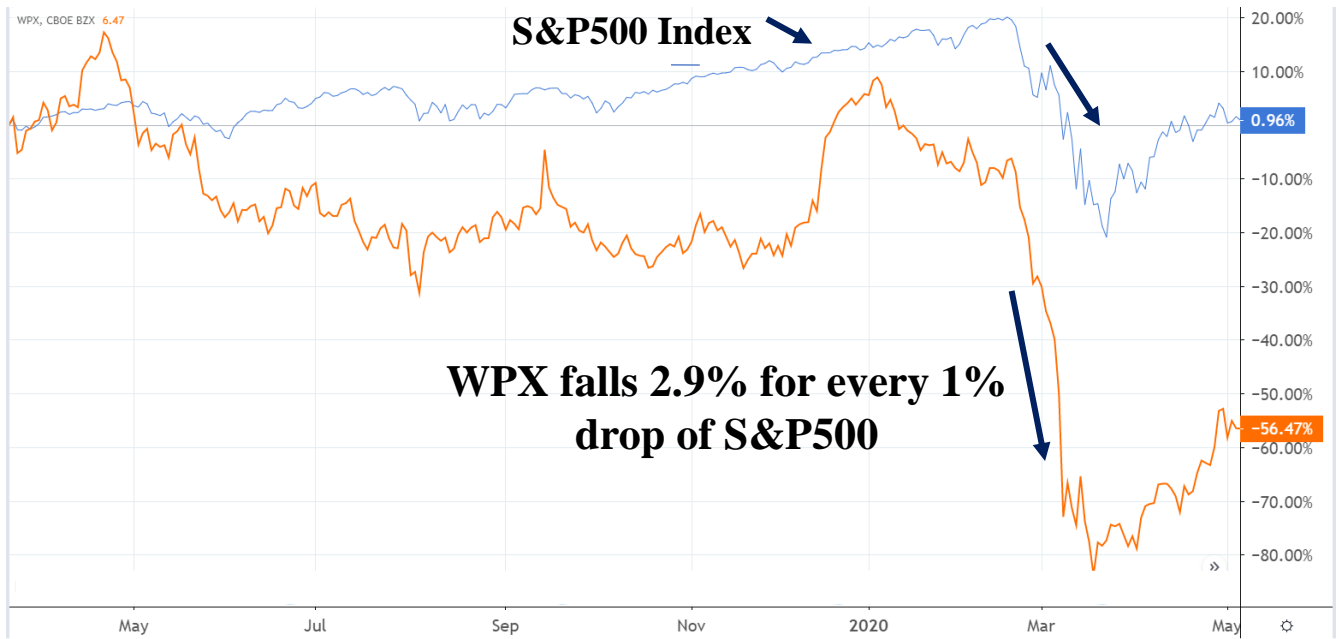
**Figure 9.13: Value of WPX Energy Inc. (ticker: WPX) stock versus the S&P 500 index. WPX's larger beta is the result of it selling off much faster than the S&P 500 index.**
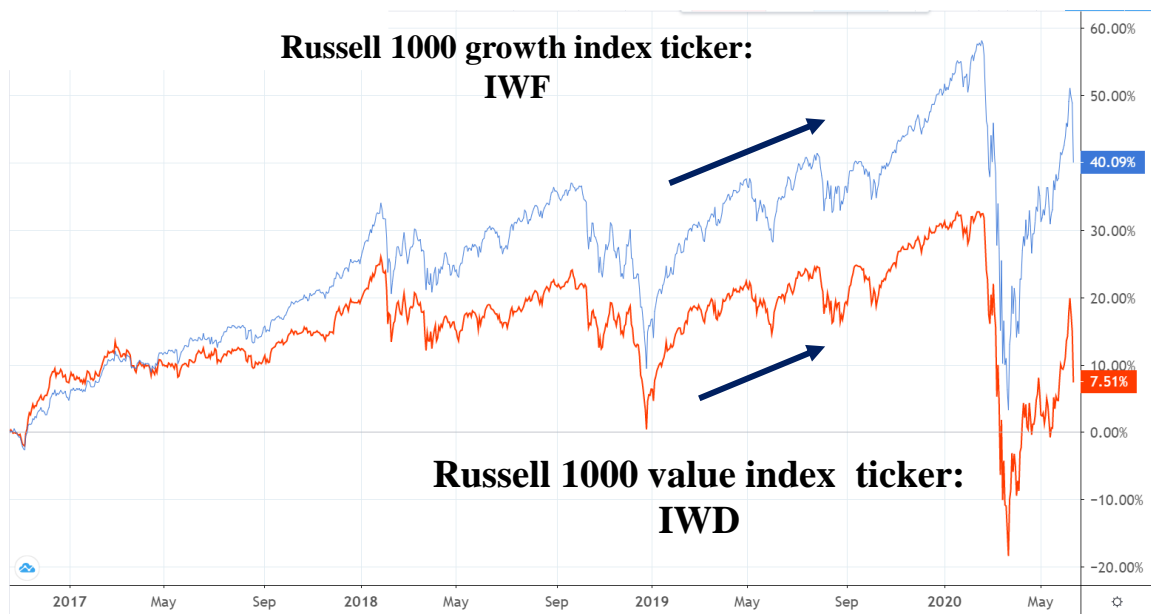
**Figure 9.14: Performance of the iShares Russell 1000 Growth Index ETF (ticker: IWF) vs. the iShares Russell 1000 Value Index ETF (ticker: IWD) for the period of 2017 to 2020. The growth stocks being tracked by IWF have been able to outperform the value stocks being tracked by IWD.**

**Boeing (ticker:BA) dropping more than 70% in just a few days**
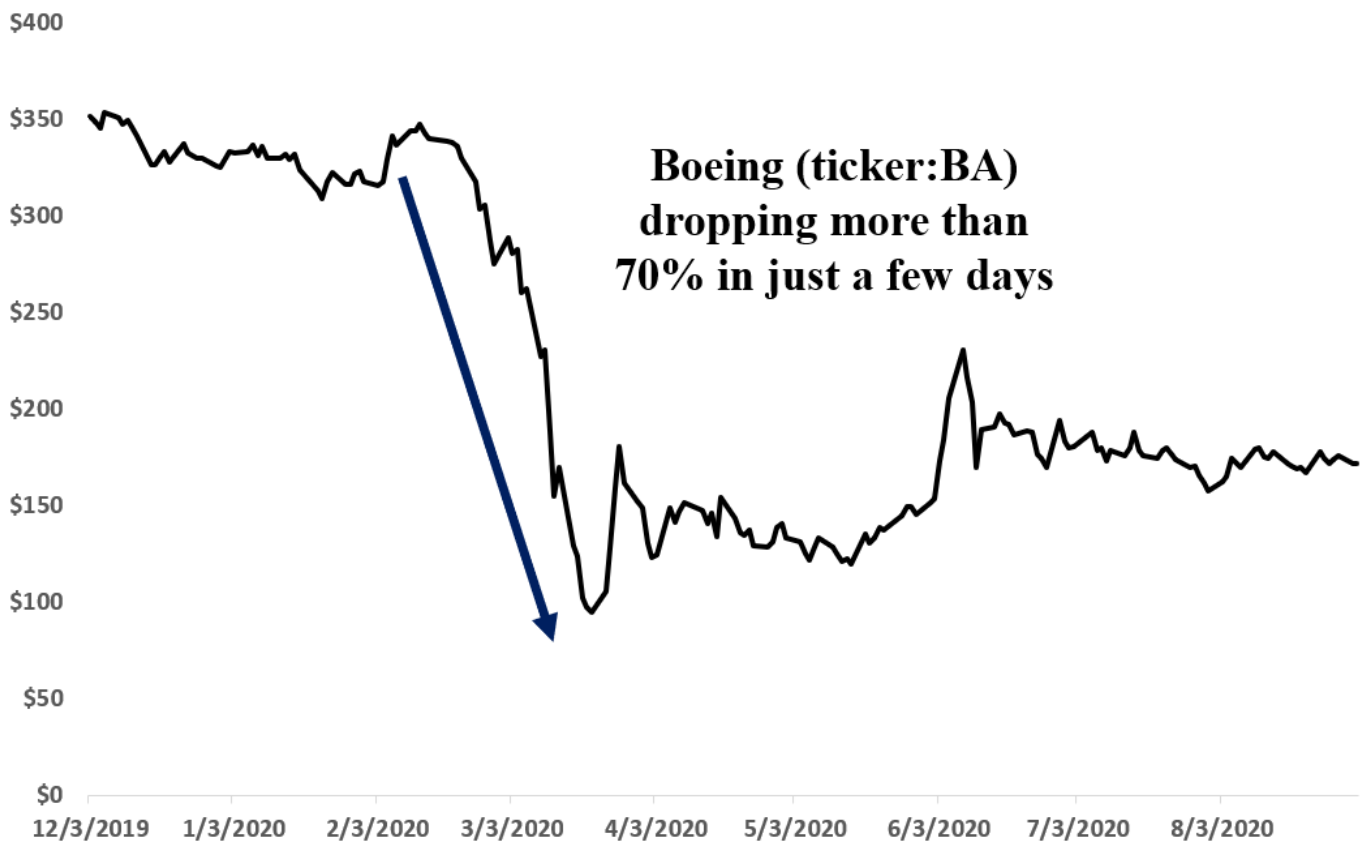
Figure 9.15: The stock of Boeing Co. (ticker: BA) selling off due to negative news.

**Figure 9.16:** The 11 sectors of the stock market and a few examples of companies in each sector.
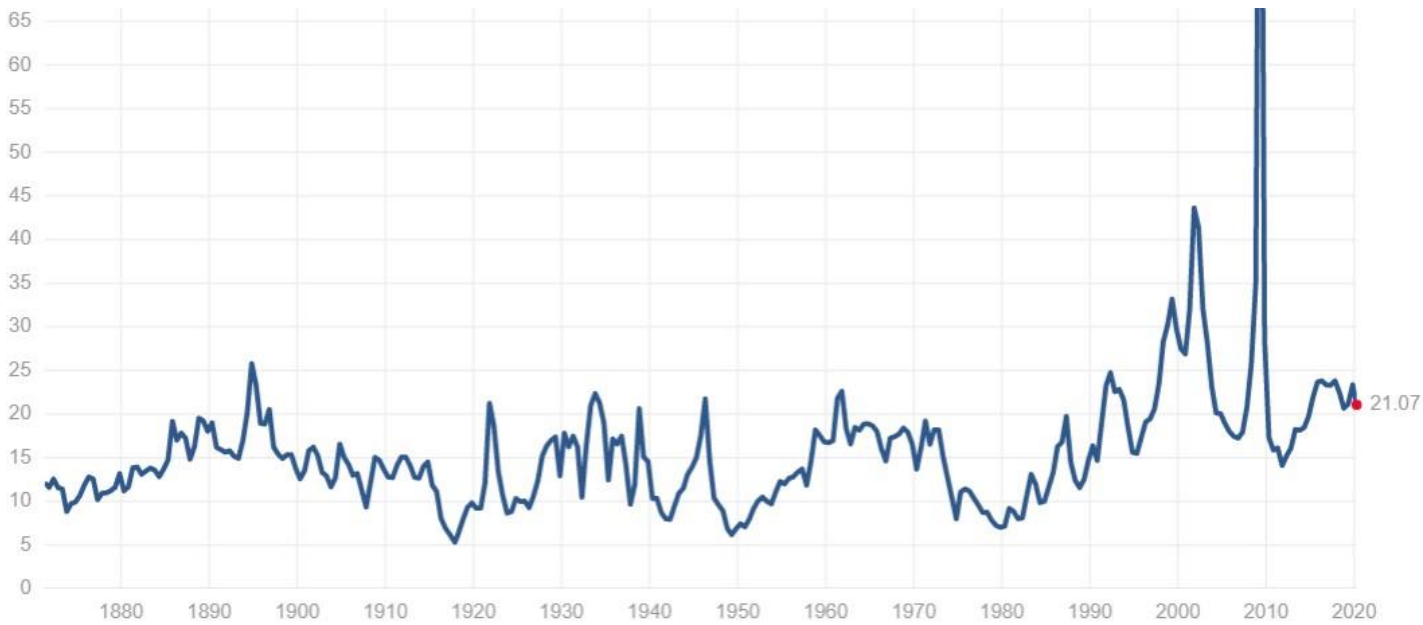
**Figure 9.17: Average P/E ratio of the S&P 500 index dating back to the latter 1800s.**

| Sector | Average P/E | Type |
|---|---|---|
| Energy | 16.20 | Value |
| Material | 19.98 | Value |
| Industrial | 20.8 | Growth |
| Consumer Discretionary | 22.94 | Growth |
| Consumer Staple | 16.15 | Value |
| Health Care | 18.2 | Growth |
| Financials | 14.26 | Value |
| Information Technology | 37.93 | Growth |
| Communication Services | 16.89 | Value |
| Utilities | 28.23 | Value |
| Real Estate | 19.07 | Value |

**Figure 9.18: Sectors and their average P/E ratios. You can use this table as a guide to find good buys in each sector.**

PEAK
CAPTIAL TRADING

| Indicator | Value | Growth |
|---|---|---|
| **Dividend yield** | Must be bigger than 1.5% | Must be between 0-2%, if they are redistributing cash, it might be at the price of their growth |
| **Gross margin** | Must be bigger than 45% | Must be bigger than 45% |
| **Net margin** | Must be bigger than 10% | They could be unprofitable, as long as they have a strong cash balance |
| **Revenue growth** | Between 2% to 6% | Must be at least 6% year over year |
| **Interest coverage ratio** | At least twice | At least twice |
| **Current ratio** | 1.5 or more | 1.5 or more |
| **Capital structure** | No more than 65% debt | No more than 65% debt |
| **Share buybacks** | At least twice in the last 5 years | No buybacks |
| **Beta** | Reasonable range between 1-1.3 | Normal to have growth stocks with high beta. However, avoid higher than 1.8. |

**Figure 9.19: Key indicators discussed thus far in this chapter. Use this table as your guide for picking the best stocks for investment.**

PEAK
CAPTIAL TRADING

# CHAPTER 10
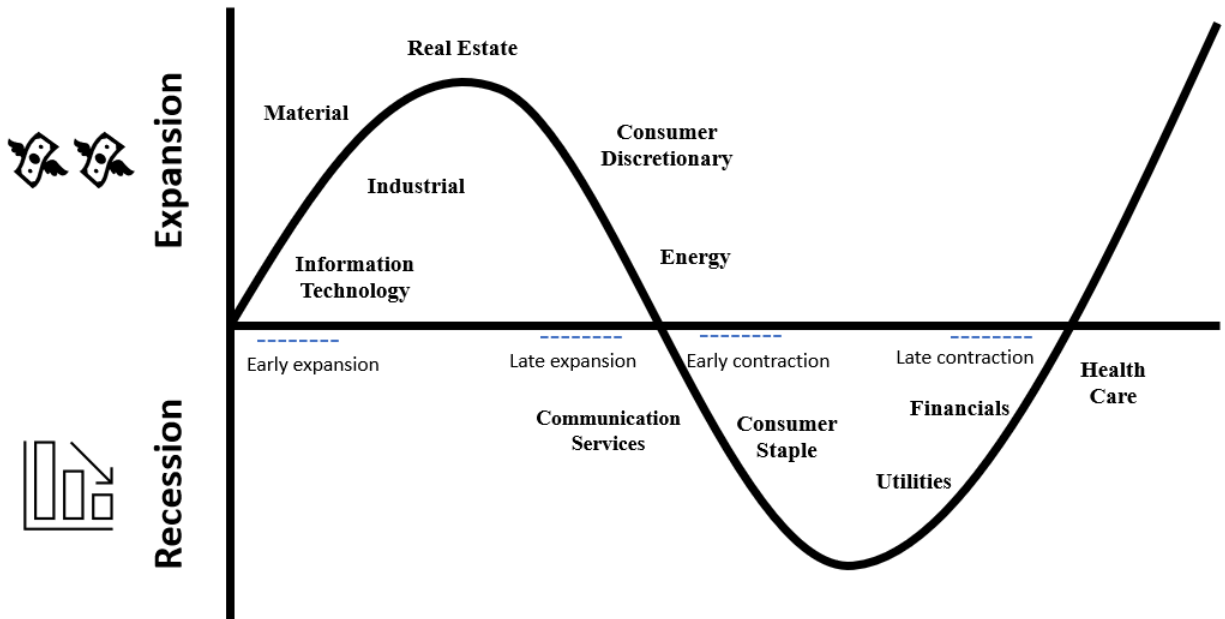
**Figure 10.1: Each sector's performance in comparison to how the economy cycles. Sectors perform differently depending on the stages of the economic cycle**
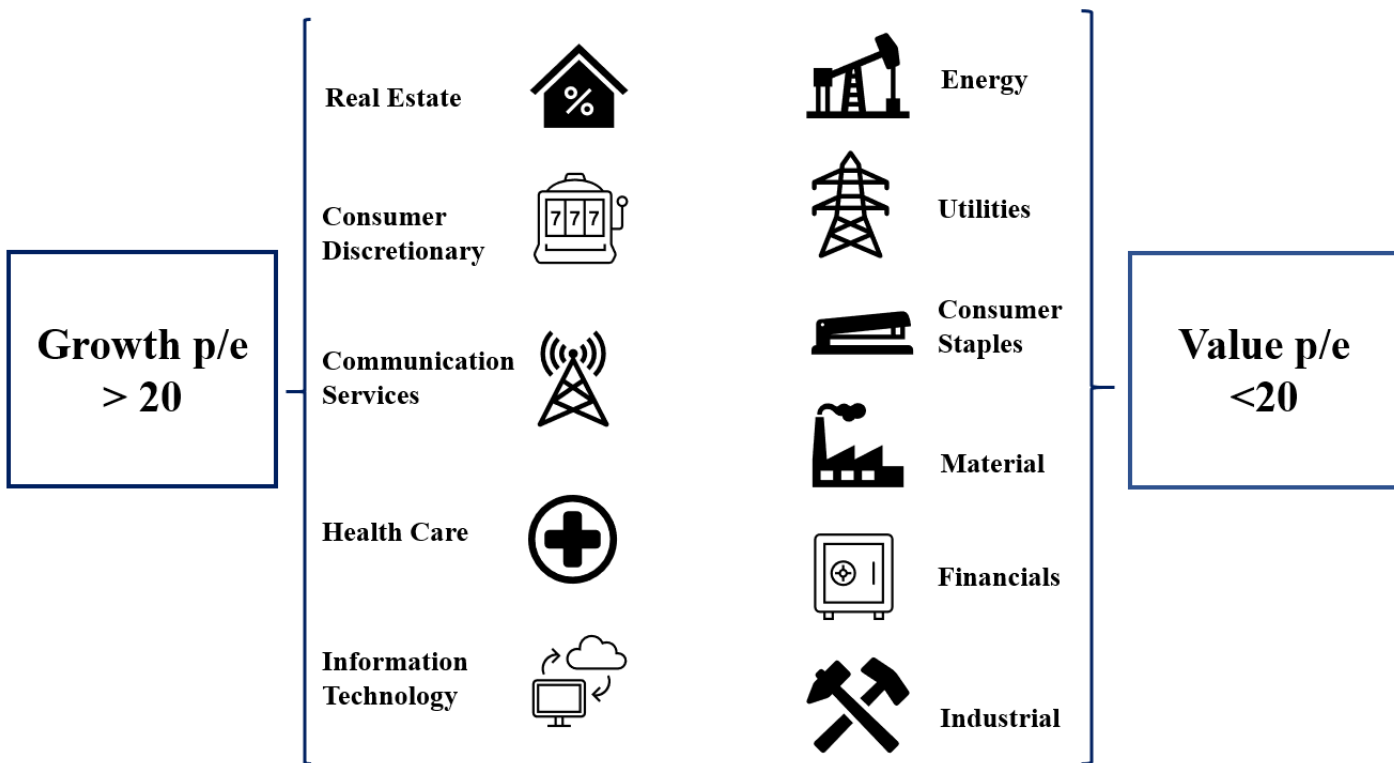
**Figure 10.2: Sectors categorized based on growth or value. This should be used purely as a guide. There are cases where a stock may fall under the value bucket but is considered to be a growth stock (and vice versa).**
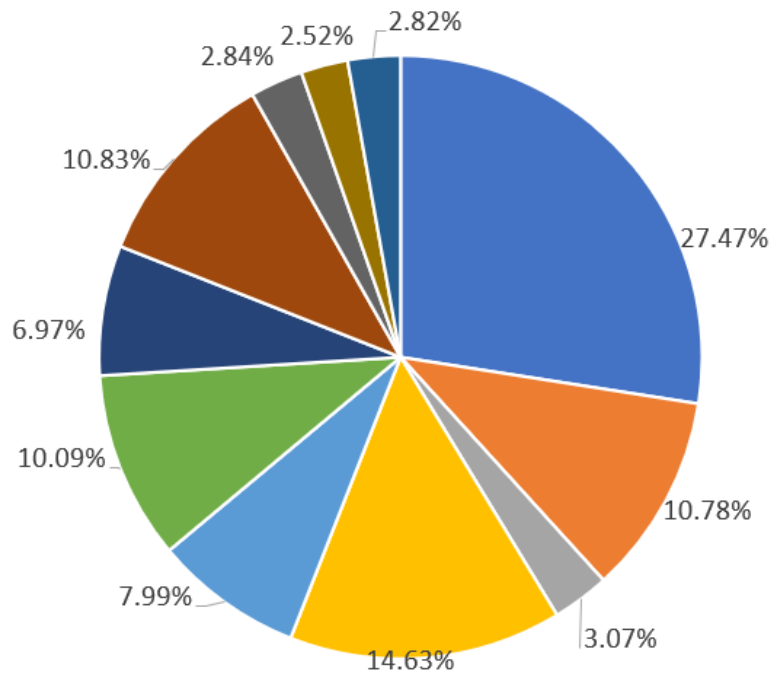
**Figure 10.3: Breakdown of the S&P 500 based on sector (as of 2020)**

Pie chart legend:
- Information Technology — 27.47%
- Communication Services — 10.78%
- Utility — 3.07%
- Health Care — 14.63%
- Industrials — 7.99%
- Financials — 10.09%
- Consumer Staples — 6.97%
- Consumer Discretionary — 10.83%
- Real Estates — 2.84%
- Materials — 2.52%
- (Additional) — 2.82%

All information on this screen is presented on a CAD, trade date basis

⊖ Asset Allocation
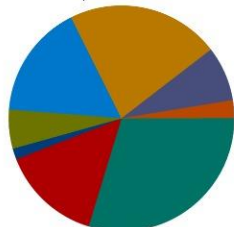


■ Cash & Equivalents - Canadian 29.38%
■ Cash & Equivalents - Non Canadian 0.00%
■ Fixed Income- Canadian 14.58%
■ Fixed Income- Non-Canadian 1.66%
■ Non-Traditional Capital Preservation 5.76%
■ Equities- Canadian 15.23%
■ Equities-US 21.89%
■ Equities-Non North American 8.19%
■ Non-Traditional Capital Appreciation 2.31%

| Asset Class | $ Market Value Including Accured Income ◇ | %Total Assets | $ Estimated Annual Income | $ Estimated Annual Income |
|---|---|---|---|---|
| Total Assets | 1,098,432.46 | 100.00% | 24,928.33 | 2.27% |
| ⊖ Capital Preservation | 564,349.00 | 51.38% | 12,028.97 | 2.13% |
| Cash & Equivalents - Canadian | 322,707.94 | 29.38% | 4,646.99 | 1.44% |
| Cash & Equivalents - Non Canadian | 33.11 | 0.00% | 0.00 | 0.00% |
| Fixed Income - Canadian | 160,143.18 | 14.58% | 4,264.37 | 2.66% |
| Fixed Income - Non Canadian | 18,191.53 | 1.66% | 868.84 | 4.78% |
| Non-Traditional Capital Preservation | 63,273.24 | 5.76% | 2,248.77 | 3.55% |
| ⊖ Capital Preservation | 534,083.46 | 48.62% | 12,899.36 | 2.42% |
| Equities - Canadian | 178,314.04 | 16.23% | 6,542.27 | 3.67% |
| Equities - U.S. | 240,435.74 | 21.89% | 3,835.93 | 1.60% |
| Equities - Non North American | 89,969.40 | 8.19% | 2,521.16 | 2.80% |
| Non-Traditional Capital Appreciation | 25,364.28 | 2.31% | 0.00 | 0.00% |

**Figure 10.4: A snapshot of my client's portfolio. This is a good example of proper diversification and capital allocation.**

# CHAPTER 11

**Aurora (ticker:ACB) on a down trend**

"Stocks aren't like parents when you get lost at the mall; they don't always come back"
**Jim Cramer**
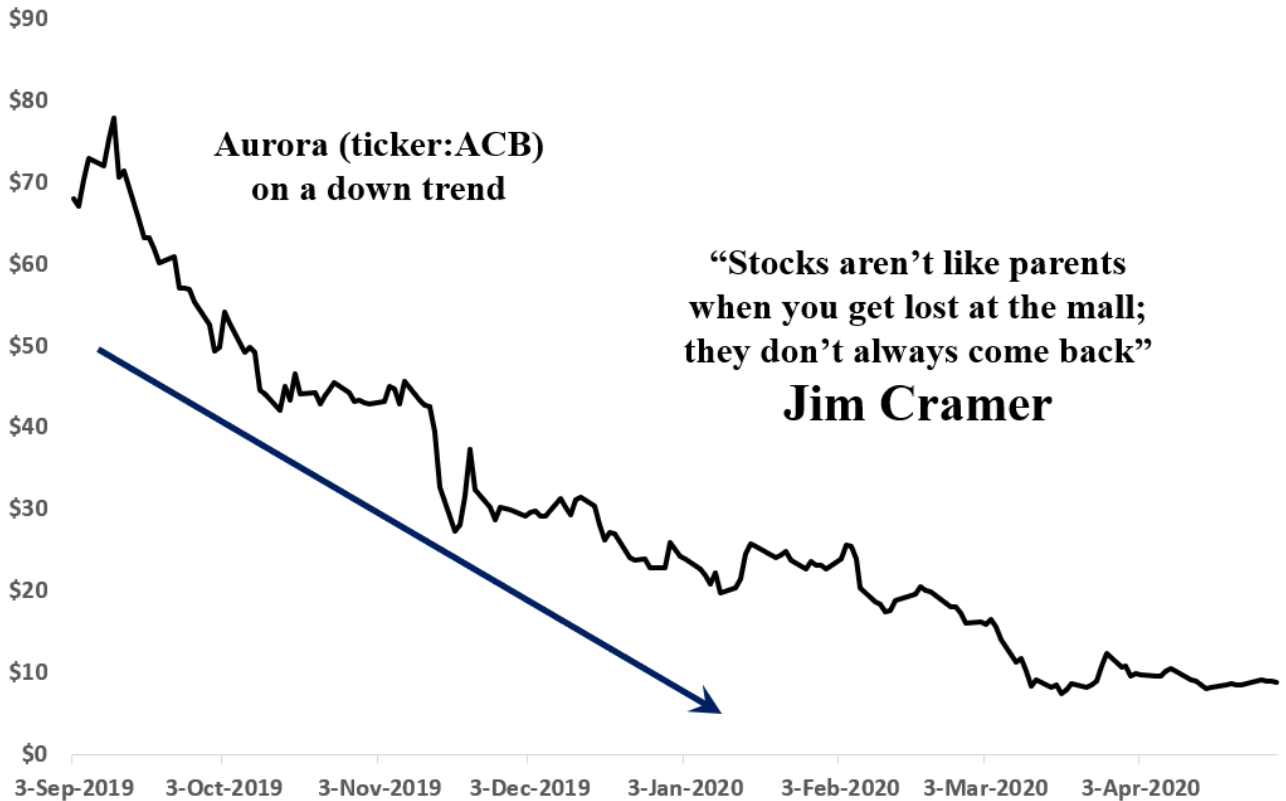
**Figure 11.1: Aurora Cannabis Inc. (ticker: ACB) price chart for spring 2019 to spring 2020.**

| Moody's | S&P | Definition | Notes |
|---------|-----|------------|-------|
| Aaa | AAA | Highest rating | |
| Aa | AA | Very high quality | |
| A | A | High Quality | Investment grade |
| Baa | BBB | Minimum investment grade | |
| Ba | BB | Low grade | |
| B | B | Speculative | |
| Caa | CCC | Substantial risk | Below investment grade |
| Ca | CC | Poor quality | |
| C | D | Imminent default | |

**Figure 11.2: The standard credit ratings given to bonds issued by companies for selling off their debt. Your goal is to only include investment grade bonds in your long-term investment portfolio.**
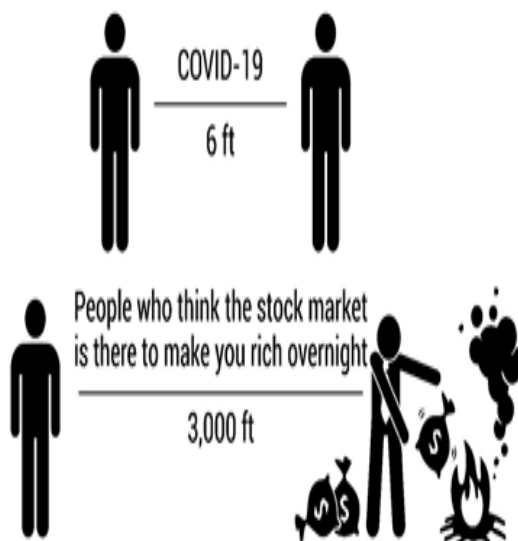
**Figure 5.1: Images of a social distancing guideline related to COVID-19 (to protect your health), and a social distancing guideline related to those who want to make you rich overnight via the stock market (to protect your wealth). (For my non-American friends, 6 feet is about 1.8 meters, and 3,000 feet is about 900 meters.)**

# Glossary

# 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.

**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.

# 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.

**Bear Market**: When different indices in the market drop more than 20% in value.

**Beta:** In simple words, beta is riskiness of a stock, in compare to overall market. It is a mathematical regression of the stock weekly, monthly or daily return, regressed over the return of the overall market.

**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.

**Bottoming**: this is an expression used when the stock, or a specific market index, break their losing streak, and start rebounding. Many day and swing traders try to guess when a stock bottoms to take the reversal trade in the opposite side to maximize their profits.

**Broker:** the company who buys and sells stocks for you at the Exchange.

**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).

**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, if your broker gives you a leverage of 4:1 and you have $25,000 in your account, you 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.

**Capital Structure**: this ratio shows how much of a company is financed by equity and how much of it is financed by debt.

$$Capital\ Structure = \frac{Long\ Term\ Debt}{Long\ Term\ Debt + Share\ Holder's\ Equity}$$

**Cash Flow From Operation**: This is the cash the company generates from its operation. This is the cash it has, after it pays all of its suppliers and other related costs.

**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 p.m. 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.

**Commission-free broker:** a relatively new type of broker which does not charge a commission for each trade you make, they are not suitable for day trading as they generally do not provide the fast execution of trades that day traders need, with that said, they have revolutionized the trading industry by forcing established players to either abolish or significantly reduce their commissions.

**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.

**Correlation:** Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other. As a rule of thumb, remember that bonds and fixed incomes have a negative correlation (smart way of saying relationship) with one another.

**Current Ratio**: this is a very important ratio that shows solvency of a business and its ability to cover its short-term obligation. The formula is as follows:

$$Current\ Ratio = \frac{Total\ Current\ Asset}{Total\ Current\ Liability}$$

# 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.

**Discounted Cashflow Model**: this a model most of the investment banks in the Wall Street used to value companies. This model forecast revenues and costs of the business into the future (usually 5 to 10 years), and then discount it back using an appropriate discount rate. Understanding the basis of this model can help you in reading other analysts reports.

**Diversification:** Choosing different stocks, bonds, and assets to protect your portfolio from downturn in one specific sector or asset class. For example, having government bond to protect your portfolio from potential downturn in the stock market.

**Dividend Aristocrat:** elite group of companies that have raised their dividends every year for the past 25 years.

**Dividend Yield**: Dividend per share divided by the share price. As an example, if a company's share is trading at $10, and is paying $1 per share in annual dividend, its dividend yield is 10%.

**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.

# E

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

**E.T.F:** Exchange Traded Fund is a basket of investment that usually tracks an underlying index. As an example, SPY, tracks the S&P500 index, DIA tracks the Dow Jones Industrial Average and so on.

**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 where you will exit the trade.

# F

**Fixed Income or Bonds:** These are assets that will provide you with fixed payments throughout their life

**Float:** the number of shares in a particular company available for trading, for example, in June 2020, Apple Inc. had 4.33 billion shares available.

**Forex:** the global Foreign Exchange Market where traders trade currencies.

**Fundamental Analysis:** is a method of analyzing a company using macroeconomics and financial factors.

**Fundamental catalyst:** 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.

# 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.

**Gross Profit Margin:** Gross margin is a company's gross profit (gross (total) revenue minus cost of goods sold (cost of revenue)) divided by its gross (total) revenue.

**Growth Stock:** A category of stocks that are growing at a higher rate, do not pay dividend or do share buy backs. They are strictly focused on growth.

# H

**Hedging:** A hedge is an investment that protects your finances from a risky situation. Hedging is done to minimize or offset the chance that your assets will lose value.

**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.

**High relative volume:** 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.

# I

**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.

**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.

**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!).

**Interest Coverage Ratio:**  The ratio that shows if the company can pay the interest owing on its debt from the cash it earns from its operations.

$$Interest\ Coverage\ Ratio = \frac{Operating\ Income}{Interest\ Expense}$$

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

**Investing:** investing is the science of taking your money, placing it in an asset class, and hoping to grow it in the short term or the long term. Investing should not be mistaken with trading.

**Investment Philosophy:** This is the methodology each investor defines for him or herself before entering the market. Are you a value investor, growth investor or both?

# 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:** Nasdaq TotalView Level 2 data feed, 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.

**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.

# 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.

**Market cap/market capitalization:** a company's market cap is the total dollar value of its outstanding share.

**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 if it has suddenly changed in the time since you gave your instructions to your broker.

**Mega cap stock:** a company with a large market capitalization. Few examples are Apple, Amazon and Microsoft.

**Micro-cap stock:** a company with a small market capitalization.

**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) and the Exponential Moving Average (EMA).

# N

**Net equity curve:** your profit and loss after deducting your broker's commissions and fees.

**Net Profit Margin:** company's net income divided by its gross (total) revenue.

# O

**Open:** the first thirty to sixty minutes the stock market is open, from 9:30 a.m. up to 10:30 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 toward and whether the buyers or sellers are winning.

**Options:** a different type of trading, it's trading in contracts that give 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

**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.

**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.

**Price to Sale Ratio:** This ratio is calculated by dividing a company's market capitalization by its total sales in a given year. Like the P/E ratio, the P/S ratio is also widely reported.**Profit target:**  as a 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.

**Retail trader:**  individual traders who do not work for a firm do not manage other people's money.

**Risk management:**  one of the most important skills that a successful 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 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.

# S

**Scanner:**  the software you program with various criteria to find specific stocks.

**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 borrowed and then 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.

**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.

**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.

**Social distancing:**  for traders, social distancing means staying very far away from anyone who thinks the stock market is a get-rich-quick scheme, in light of the 2020 COVID-19 pandemic and social distancing guidelines, protect your wealth by staying away from anyone who think stocks are designed to help you get rich overnight.

**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 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.

**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.

**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 which are both different from investing.

# T

**Technical Analysis:** is a method of identify entry points based on charts and indicators.

**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 plan/trading plan:**  the plan you develop before you actually enter a trade.

**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.

# V

**Value Stock:** Stocks that are well established and are at the maturity age of their life cycle.

**Volume Weighted Average Price/VWAP:**  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

**Warrant:**  a tool used to purchase shares in the future at a set price.

**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.