# 870 TRADES

10 Commandments of Trading

by Homegrown Investments

# Thou shalt not be greedy

Greed is one of the most prevalent emotions in the stock market, and it is a leading cause of financial loss. One of the tactics traders use to tackle greed is scaling out. Scaling out refers to when you hit a certain percentage increase, you can scale out a percentage of your stock position.

**Here is an example:** Harold buys 1000 shares of XYZ stock at $1. When **XYZ hits 1.05**,  has made 5% and should take 25-75% (250-750 shares) of his position on XYZ out. He should then change his stop loss to his entry; **if the stock reverses down, he will still have made money.** When XYZ hits 1.1 and 's is up 10%, he should scale out another portion of his position and change his stop loss 5% higher.

# Thou shalt always set a Stop Loss

A Stop Loss is a risk management strategy that involves selling a stock or options **contract when the underlying price, or premium price falls too low.**

The general rule is to set your stop loss a specific percentage below your entry price. The percentage amount **depends upon factors** such as port size, experience trading, and confidence level.

**Here is an example:** Harold buys 10 options contracts of XYZ stock at $1. **He sets his Stop-Loss some percentage lower than his entry, perhaps around $0.75.** XYZ hovers around $1 for a couple of minutes then the premium drops to 0.74. With a Stop-Loss order already set XYZ automatically gets sold. has managed his risk and only lost **a tiny percentage in his portfolio**. Stop-loss helps take the fear out of trading options.

# Thou shalt never hold the bag

Bag Holding is the act of holding an options play as it decreases in value.

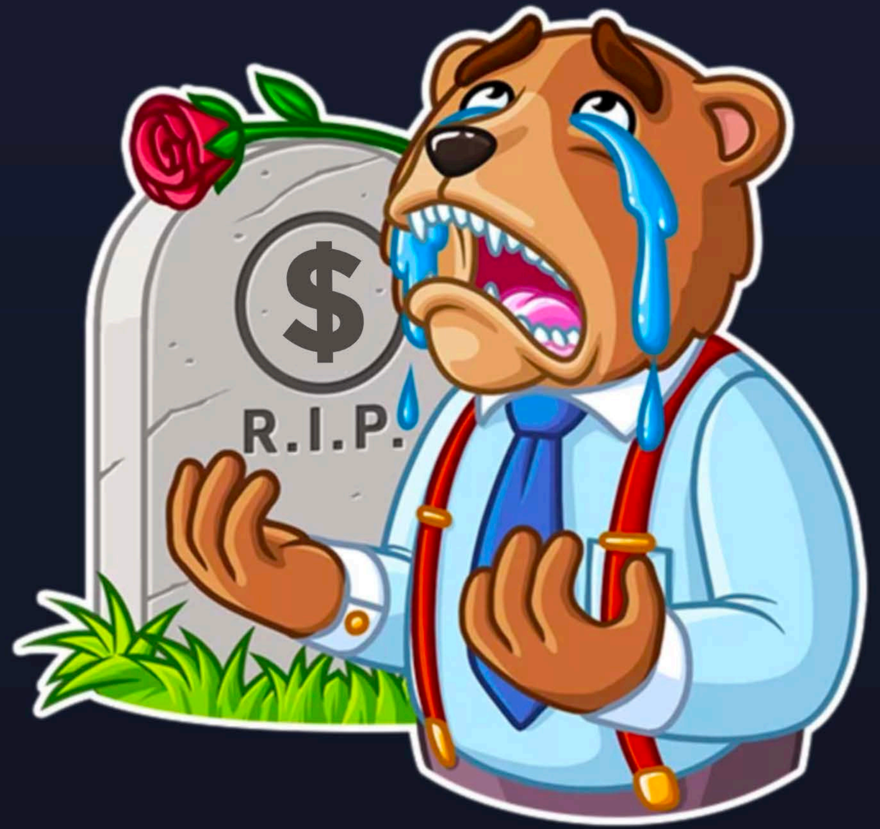
Here is an example: Harold buys 10 contracts of XYZ at $1. XYZ suddenly, clearly shows that it is starting a downward trend and will continue downward for a while. Harold didn't set a Stop-Loss and held the contract, hoping it will go back to $1. A couple of minutes later, XYZ is sitting at $0.7, and Harold has lost 30%. Harold keeps holding over the next few hours, hoping that it reaches $1 so he can break even, but it never does. You never want to bag hold because it ties up funds that could have been used on other trades that could make more money. It usually results in you just losing money over time. A simple way to never bag hold is to cut losses by using a Stop-Loss.

# Thou shalt never dump his/her whole portfolio into one trade/stock

Many traders split up their portfolio into three segments.
1. **Day trades**
2. **Swing trades**
3. **Long term investments**

This is a style of risk managing by not putting everything into one stock/option contract. This applies to **all investing strategies except YOLO plays**, of course, which break all the rules.

Most traders should go by a rule of thumb of not putting more than 10% of his/her portfolio into one stock/contract depending upon portfolio size. Traders use this rule as a way to manage risk.




If a stock goes up a lot and you have your whole portfolio in it, congrats, but if **you put your entire portfolio in one stock and it goes down, you will end up losing everything.** No trader will exclusively make profitable calls, but the goal is to have more positive calls than negative, and to mitigate the losses on negative plays.

# Thou shalt never trade with emotion

This is perhaps the **hardest of the 10 rules to follow.** Emotions are what distinguish a profitable trader from a poor trader. The less emotion you have when trading, the more likely to be profitable.

**Here is an example:** Harold buys 1000 contracts of XYZ at $1. XYZ shoots up to $1.10 (10% gain), but Harold gets greedy (emotions) and doesn't sell. The next thing you know, XYZ drops to $0.90, and Harold is down 10%. Harold's fear (emotion) grows that it will get lower, so he sells, not realizing it's just a pullback, and the premium shoots up to $2.10. **Harold is now mad that he lost money when he could have made money.** He starts trading with his emotions to get his money back. This is called “revenge trading” and is a very poor practice. As you can see, when you trade with emotion, it clouds your judgment, and even though you might see **contrasting specific technical analysis signals on the chart.** Your emotions refuse to see or acknowledge these facts, and you trade poorly, and thus lose more money.

# Thou shalt never enter a trade blindly without consulting the chart

When traders enter a stock, it is for a reason. A trade can be based on a pattern, news, momentum, etc., but we never go in blindly based on someone's word, and neither should you. **Whenever you get an alert, look at the stock chart and see why that person entered.** If you can find out why they have, you have your reason to enter and be more comfortable in the trade.

**Here's an example:** Fred told Harold that XYZ should jump from $1 to $2 based on XYZ's rumor of getting a 500 Million dollar contract. Harold buys 1000 shares of XYZ at $1 without doing his own research, **Fred messed up and told him about the wrong stock.** XYZ the next week shoots down to $0.8, and Harold is down 20%. The same thinking applies to option contract trades.

# Thou shalt never enter a trade blindly without consulting the chart

As stated above, emotions defer a profitable trader from a poor trader. A key way to combat emotions is by going in with a plan.

Here is an example: Harold sees that XYZ is forming a pennant, he notices that the volume is rising and that it should run if it breaks the $1 resistance point. Harold starts to lay out his plan for his entry and exit. He plans to enter at $1.01 if it breaks and holds above the resistance, with a 10% stop loss set.

Harold looks for potential resistance areas, and has suggested targets in the alert so he knows when to take profit. Since Harold planned out everything, he has minimized his risk/emotions and set himself up for success.

# Thou shalt never chase/force a play

Chasing is the act of trying to buy an option contract, according to a signal one has received, and perhaps was caught off guard not paying attention as one should have been, and when one decides to enter the play it is already up a lot. **This is usually due to FOMO (Fear Of Missing Out) on potential gains.**

**Here is an example:** Harold sees that XYZ play is up 20% already when he notices the signal. Harold is so upset that so many other people profited off this play, (FOMO) and decides to enter. Harold buys 10 contracts of the XYZ play even though it is extremely overbought. The play then plummets as others take profit, and never recovers. **Harold ends up losing as the premium falls rapidly.** As you can see, often, chasing will result in higher emotions and higher losses, so be aware, **(Rule #6).**

## Thou shalt always be happy with any profit

Sometimes, after exiting a stock, the price can shoot up. You feel cheated that you missed out on potential profit or didn't go for 50% gains because you stopped out early at a perfectly reasonable profit percentage. Remember that your walking away with any reasonable profit is a key to ultimate success, and **should stop you from trying to chase or force a trade.** Always be happy with profit and never be too greedy. PROFIT IS PROFIT!

## Thou shalt trade to trade well not to make money

Most profitable, earnest traders have a standard approach, which is to trade to trade well not to make money. This approach helps serious traders minimize emotions, but also **allows traders to obtain personal satisfaction from trading**. When you trade to trade well, profit is the byproduct, not the reason for trading.

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