

CONTENTS

Preface	xiii
Acknowledgments	xix
Introduction	1

SECTION I	
THE WORLD OF THE DAY TRADER	5

Chapter 1. Exploiting the Excesses of Capitalism	7
The House Edge	9
The Bid-Ask Spread	11

SECTION II	
INTRODUCTION TO DAY TRADING	17

Chapter 2. Trading 101: Buying on Bad News and Selling on Good News	19
The Mind-set of an Online Day Trader	19
A Buyer When the Market Needs Buyers	20
Hit Singles, Not Home Runs	20
Brokerage Commissions Can Destroy Profits	21
Buy in on Fear, Sell in on Greed	22
The Slow Execution	23
Is the NYSE an Easier Market to Trade?	24

SECTION III	
HOW TO BEAT WALL STREET AT ITS OWN GAME	25

Chapter 3. Exploiting Wall Street's Conflict of Interest: Market Orders versus Limit Orders	27
---	----

	Understanding Wall Street's Conflict of Interest	27
	Price Makers versus Price Takers	29
	The Bargaining Process	30
	Price Negotiation—Market versus Limit Orders	32
	Wall Street's Prey	34
	Prelude to the Bid-Ask Spread	35
Chapter 4.	The Day Trader's Crystal Ball: Understanding the Bid-Ask Spread	37
	A Snapshot of a Moving Picture	37
	The Mechanics of Price Movement—Understanding What Makes a Stock Move Higher	39
	Example 1: The Quote—Snapshot of a Moving Picture	41
	Example 2: The Market Order to Sell—Hitting the Bid	46
	Example 3: The Market Order to Buy—Lifting the Offer	48
	Example 4: The Limit Order to Buy—Bidding for Stock	50
	Day Orders versus Good-until-Canceled (GTC) Orders	52
	Example 5: The Limit Order to Sell—Offering Stock	54
	Haggling Over Nickels and Dimes	56
	Example 6: Moving the Stock Higher	57
Chapter 5.	The Role of the Specialist on the New York Stock Exchange	61
	Using the Specialist System to Your Advantage	64
	What If There Were No NYSE Specialist?	66
	Buyer of Last Resort	67
	Is the Profit the Specialist Makes Justified?	68
	A License to Steal?	68
	The Specialist's Limit Order Book	69
	Being on Both Sides of the Market	71
	Narrowing the Bid-Ask Spread	72
	Wide Spreads Protect the Specialist from Volatility	73
	Handling a Large Sell Order	74
	The Real Intentions of the Specialists	77
	Beware When the Specialist Takes the Other Side of Your Trade	77
	The Day Trader as a Shadow Specialist	78
	The NYSE's Fair Order Handling Rules	80
	Never Reveal Your Hand	85

How Can You Determine Where the Specialist Lurks in the Stock?	85
Jockeying for Position	87
How Do You Know Where You Stand in Line?	89
When in Doubt, Ask the NYSE Floor	89
Tipping the Odds in Your Favor	92
Beware of the Specialist	93

SECTION IV

INTRODUCTION TO SCALPING THE NYSE: TAKING FOOD OUT OF THE SPECIALIST'S MOUTH

95

Chapter 6. The Day Trader's Secret Weapon: Exploiting the Bid-Ask Spread	97
How Can You Make Money Trading Stocks that Don't Move?	98
The Role of the Scalper	99
Hit Singles, Not Home Runs	100
Operating under the Radar	100
Avoiding the Glamour Stocks	102
Exploiting the Bid-Ask Spread	103
Finding the Trade's Sweet Spot	103
Simplifying a Complex Process	104
Other Moving Parts to This Trade	105
A Bet with the House?	109
Too Much Work for Only \$100 in Gross Profits?	110
A Few Words on Risk	110

SECTION V

TRADING THE MARKET'S MOMENTUM: HOW TO PROFIT FROM VOLATILITY

113

Chapter 7. Exploiting Market Volatility and Momentum: Strategies for Trading Volatile Stocks	115
The Specialist and the Upper Hand	116
Playing the Gap Open—A Strategy for Betting with the House	117
Buying on Bad News	118
Betting on the Specialist	119
Parameters of the Gap-Opening Trade	122
How to Tell If the Opening Trade Will "Clear" the Specialist's Limit Order Book	124

x Contents

	Selling before the Second Wave	125
	Trading Tick for Tick with the Market Indexes	127
	Why Limit Orders Don't Work in a Rally	127
	Using the S&P Futures to Gauge the Sustainability of a Rally	129
	Lightning-Fast Market Upsurge: How Offers Vanish in the Vapor Trail	129
	Stock for Sale Becoming Scarce	130
	Nasdaq and the Role of the Market Makers	131
	A Few Words on Short Selling	135
	Two Methods for Day Trading Nasdaq Stocks	136
	The Apple Computer Trade	139
	Buying Strong Stocks on Pullbacks	140
	Opening the Stock Abnormally High	141
	The Dangers of Buying a Strong Stock on the Opening Trade	141
	Inflicting Heavy Damage on the Market Makers by Attacking Their Vulnerability	142
Chapter 8.	The Day Trader's Ticket to the Poorhouse: How I Managed to Lose \$12,000 in Less than 24 Hours	145
	The Pain of Missing a Trade	147
	How Could the Stock Go Any Lower?	147
	The Terrifying Feeling of Getting Caught in a Downdraft	148
	A Feeling of Irresistible Greed	148
	The Need to Break Even	150
	Buying the Stock for the Third Time	151
	Feeling of Devastation Leads to Useful Insights	152
	Learning from the Mistake and Moving On	156
	Can the Quoted Market Always Be Trusted?	156
	A Fool and His Money Are Soon Parted	159
Appendix A.	The Day Trader's Arsenal: Online Brokers, Trade Commissions, Real-Time Quote Systems, and the Home Office	161
	Choosing an Online Broker	161
	Negotiate the Best Possible Commission Rate	163
	Make Sure that the Broker Can Route Directly to the NYSE	163
	Per-Share versus Per-Trade Commission Rates	164
	Setting up at Least Two Accounts	164
	System Crashes and the Late Fill	165

	Customer Service, Back-Office Problems, and Trade Discrepancies	167
	The Remedy—Keep Good Trading Records	167
	The Home Office and the Virtual Trading Floor	169
Appendix B.	Considerations for Trading for a Living: The Allocation of Trading Capital, the Pattern Day Trader Rule, Using Margin and Trading Part-Time vs. Full-Time	173
	Allocation of Trading Capital	174
	The Pattern Day Trader Rule	177
	Trading on Margin	177
	Margin Calls	178
	Part-Time versus Full-Time Trading	179
Index		183