MAKE MONEY IN STOCKS - HOW THE DAY TRADERS DO IT

No doubt you've heard of 'day traders' and how they sit at home making big money without having any boss or customers or have any need to interact with anybody. So how do they do it? Well they use a number of techniques but in this article we're going to explore one (and probably the most used), 'Technical Analysis'.

Before we start clarification must be made that the author is not a financial consultant and this article is not intended to direct or advise you in your investment strategies. This article is merely to describe some of the author's observations whether real or imagined.

People, especially concerning publicly available information, tend to respond at least to some degree as they percieve others to respond. For example: if people continue to buy stock until it reaches a certain price and then stop (for whatever reason) once, when the stock turns around (after the dive) and goes back up, people will be more wary of keeping the stock after it goes over that price again. This is known as a 'resistance' line. Of course resistance lines are broken all the time but patterns do seem to exist within stock pricing histories.

The job of a technical analyist is to be able to spot situations where the odds are in there favor that a particular stock will go up or down. Technical analysts watch for certain patterns and buy and sell stock based on predictions made as a result of spotting those patterns. Of course no one can acurately predict what stock prices will do 100% of the time but day traders generally try to keep the odds in their favor and that's how they make money.

If you have reason (even just a little) to believe that a particular stock is going to go up you might buy some. You recognize that it might go down a bit first so you determine how far to let it drop before you sell. If within that margin it turns and goes up you can ride it all the way up to the point where *you expect it* to start to fall (a resistance line). If you keep doing this (lose a little or gain a lot) over and over and you make money just 50% of the time, you'll profit from your overall investments. The trick is to be consistent. Get out every time it drops too far and never ride it above where you expect it to turn or you might get caught in an inverted spike and lose a whole lot real fast.

To study patterns you need to get a stock analyis software package or go to a Website where you can study stock trends. We like to go to http://www.bigcharts.com. OK, so what are the patterns that Technical Analysists look for?

To 'short' a stock is to 'sell' it at a specific price (not having bought it) and then 'buy it back' after it drops below that price. Brokers let you do this and you don't actually end up with the stock in the end. Basically you 'sort of' buy stock expecting it to go down instead of up.

Here are a few of the most common ones:

Head & Shoulders: The stock goes up and comes back down. It goes back up but farther (maybe 1/3 to 1/2 higher) and drops back to the same line. It goes back up again but the the same point as the first time and drops again. This pattern looks vaguely like a head and shoulders. When the price drops below the 'neckline' it is expected to continue to drop. The investor would short the stock in this case. This pattern is also seen frequently in an inverted pattern. In that case a long (buy the stock) would be indicated.

Cup & Handle: The stock goes down and then back up to form a pattern that vaguely looks like a cup. Then it goes back down just a little and back up to form what vaguely looks like the cup's handle (around 50% of the cup bottom). Now there are 2 points on a line where the stock reached and then went back down and it's right back at the top of the cup. The time of execution is when the stock reaches that point for the 3rd time. The stock is expected to shoot up to the next higher resistance point (above the cup's top).

Triangle or Wedge: The stock goes up and back down then back up then back down where the top and/or bottom price lessen consistently so that the distance between the top and bottom is less each time. If you drew a line by connecting the points of the top price and then another line connecting the points of the bottom price you would draw a triangle. When the price 'breaks out' of the triangle it is expected to continue in the direction that it's going. Very similar patterns to this are called the Flag and the Pennant.

Double Top: The stock goes up then back down to a point and then back up. When it hits the price that it turned at the last time it turns again. The pattern looks like an M but all the lines are diagonal. If it breaks below the point at which it bottomed out (in the middle of the M) it is expected to continue down. A short is indicated. An inverted version of this pattern (a W) would indicate a long (buy).

Many more patterns are recognized and the art of reading them is complex. This article is not intended to teach how to buy and sell stocks using Technical Analysis. It is intended only to introduce the subject and perhaps inspire further learning.

You can gain a great deal of information about studying stock patterns using Technical Analysis. Do a search in the search engines on the Internet for 'stocks "Technical Analysis" patterns' and you will find many Websites that explain it.

This author recommends two books on the subject: 'Technical Analysis Explained' by Martin J. Pring and 'The Master Swing Trader' by Alan S. Farley. You can also visit Alan Farley's Website and get free stock picks by him and his associates at: http://www.hardrightedge.com.