Stock Markets Guides

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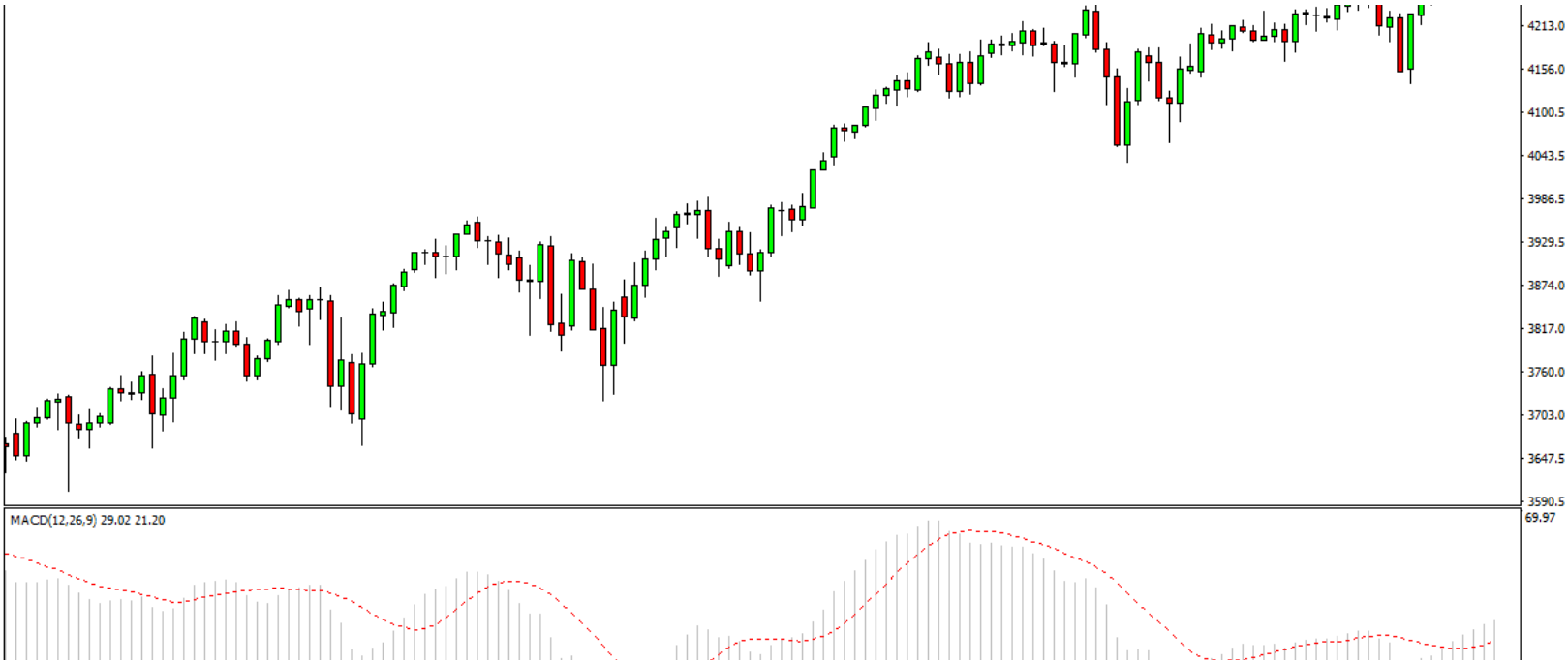
Professional Trading Strategies You Can Use Now



Three main things differentiate a successful trader from an unsuccessful one; discipline, dedication, and professional trading strategies.

A trader needs all three of these to be profitable in the long run. Without discipline, even the best strategies will fail and not yield positive results.

Without dedication and perseverance, a trader will not trade for long periods of time, as they will become discouraged after a loss and might even stop trading.

But, perhaps the most important trait for any trader is to have a professional trading strategy that they trade on.

In this post, we go through the best trading strategies you can start using in your own trading.

What is the Best Trading Strategy?

Unfortunately, there is no single trading strategy that works best. The optimal trading strategy for each person is different, and it depends on a lot of things, including;

Your Risk Appetite

Your trading strategies will be largely influenced by your risk appetite, which depends on many factors.

As a rule of thumb, younger investors are willing to take on greater risks, whereas older investors are more risk-averse.

Investors with a higher risk appetite might choose to invest in smaller companies with huge upside potential and steep risks. However, risk-averse investors usually prefer to trade blue-chip stocks as these are more stable and give consistent, albeit lower, returns.

Your Timeline

Some investors have a longer time horizon than others, which has a large impact on the kind of investments you make and, consequently, on the trading strategies you use.

Whereas some traders trade using 5-second candles, long-term investors whose time horizons for profit on their investments are up to 10 years or even more. Therefore, different strategies work with different timelines, and you will have to adapt your strategies based on this.

Your Level of Activity in the Market

There are two ways to earn money in the market, active trading and passive investing.

With active trading, you regularly buy and sell shares to profit from the share price fluctuations over a given period of time.

With passive investing, you buy a particular portfolio of shares, and you earn money regularly in the form of dividends for holding the stock. Over a period of time, the share price might appreciate too, but your primary source of income is the dividends that these shares provide.

Depending on whether you're an active or passive investor, there are different strategies that you will use to be profitable in the market.

There are two primary classes of strategies that people use; fundamental analysis and technical analysis. Each of these suits different types of investors, and you need to understand both to choose the one that works best for your needs.

Often, traders also use both these in conjunction; therefore, a cursory understanding of both these methods will definitely augment your trading abilities.

In this post, we discuss the different trading strategies you can use for trading in the market and what types of investors each of these strategies are suitable for.

Fundamental Versus Technical Analysis Strategies

The main difference between technical and fundamental analysis is the desired outcome in each scenario. Both forms of analysis involve identifying companies whose

shares can be bought and sold; however, both forms of analysis have different parameters and different outcomes. Each of these strategies has its own ups and downs, which have been discussed in detail below.

Fundamental Analysis

Fundamental analysis focuses on studying the company's fundamental principles to identify companies with a strong and stable business model.

Investors then invest in these companies and aim to profit when the company grows in size and becomes more profitable. Under fundamental investing, the money is being invested into the company that has issued these shares. The ideal outcome is for the company to grow over time.

Some of the advantages of fundamental analysis are:

- It considers not just the current share price of the company but also its financial position, competitiveness in the sector, and the overall position of the economy, making it a more extensive and reliable indicator.
- The information that fundamental investors require to analyze companies is available in the public domain, such as financial statements and government reports. Therefore, there is a high degree of access to information.

However, fundamental investing also has its set of disadvantages, and these include:

- It is very mathematically extensive and requires a high level of qualitative research; therefore, the analysis is only as good as the person who is conducting it. The researcher's skills play a huge role in determining whether or not the strategy will prove to be profitable.
- It is a long-term strategy and does not provide any significant gains in the short term. In addition to this, it can only indicate what companies currently have undervalued stocks; it does not provide the ideal entry and exit points for a trade on these stocks.

Fundamental analysis is primarily suitable for long-term investors with varying risk appetites. These investors largely profit from dividends and the long-term appreciation in share prices.

Technical Analysis

Technical analysis is different because it often has nothing to do with the company whose shares are being traded.

More often than not, traders do not know anything about the company whose shares they're buying and selling since they aim to profit based on price level fluctuations in the market. While these fluctuations could definitely happen due to fundamental factors, technical traders are only interested in the price movements in the market.

Their time horizon is a lot shorter than fundamental traders, and they can profit whether a share's price goes up or down, depending on what position they took in the stock.

Some of the advantages that technical analysis has when compared to fundamental analysis are;

- It requires traders to look at a minimal dataset comparatively. While trading through fundamental analysis, traders need to look at various information, including financial statements, share price, etc. However, while trading using technical analysis, only the price trends and volume information matter, making technical analysis easier.
- Technical analysis is very flexible and can be adapted to different times. Technical analysis can be carried out in a 5-minute, 15-minute, or even a daily chart. It can also be used on a variety of instruments instead of just applying to stocks.

However, there are certain disadvantages associated with technical analysis too. These are:

- It is based on the idea that past behavior can be used to predict future trends. This does not always work, as there are limits to extrapolating the future based on past trends. Therefore, there is a higher degree of uncertainty involved in technical analysis as compared to fundamental analysis.
- There is a higher degree of subjectivity involved in technical analysis. Two traders could look at the same chart and come to completely different opinions, and these are influenced by their own inherent biases and past experiences.

Technical analysis is primarily suitable for active traders who have access to accurate trading information and are willing to put in the time to trade and improve constantly.

Professional Trading Strategies

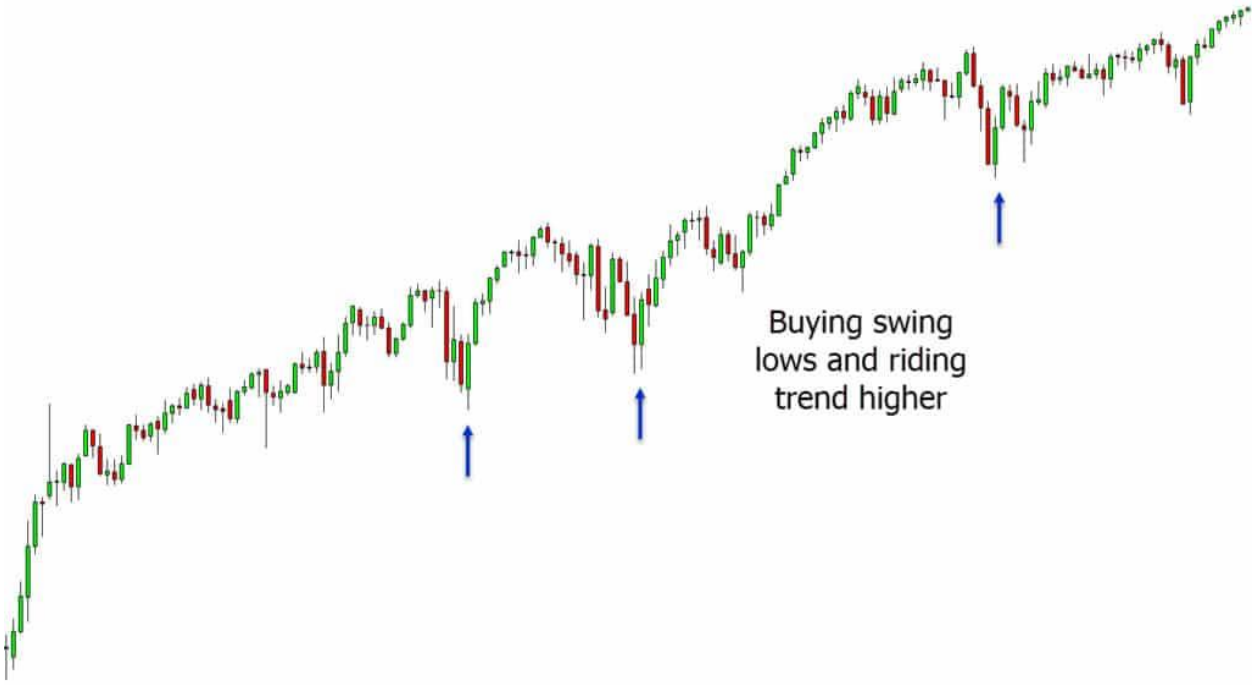
Based on the kind of analysis that you are planning to use, there are several different professional trading strategies that you can choose from.

Below, four of the most commonly used trading strategies have been analyzed and discussed in detail.

Swing Trading

Swing trading refers to a trading strategy that primarily utilizes technical analysis to capture gains that might be realized in a few days or weeks.

It is a short-to-medium term strategy, and some traders also use fundamental analysis for bigger trades for a more detailed understanding of the company. This enables them to re-confirm their assumptions about the expected movements of the stock over the next few days.



One of the major risk factors involved in swing trading is called the overnight and weekend risk.

When a trader uses swing trading, they leave their positions open overnight and across weekends, unlike day trading, where all positions are closed on the same day. This means that the stock price might be affected by overnight changes when the markets are closed.

Sometimes, the stock price might open at a different level than the price it closed on the previous day, increasing the risk factor for traders.

Traders generally follow a set risk-reward ratio while trading using these strategies and their stop-loss and profit for each trade using this ratio. In addition to this, traders might also choose to close the position themselves based on a technical indicator or unexpected movements in the price action.

Scalping

Scalping is a trading style that does not really rely on fundamental or technical analysis for the most part.

The basic idea behind scalping is that drops and drops make an ocean. Scalpers usually open and close hundreds of trades on any given day, making small profits on each of them. For example, instead of buying 10 shares at $20 and selling at $25 after 4 hours, making a profit of $50, they buy 1000 shares at $20 and sell them at $20.05 after 15 seconds, making the same profit in a much shorter timeframe.

The main factor driving their profits is the volume of the trades they make (1000 shares instead of just 10) and the high frequency of their trades (scalpers sometimes make 100+ trades in a day).

The main consideration is that there needs to be a strong exit strategy in place for every trade. Due to the high volume of shares being traded, even a small unfavorable movement can lead to significant losses for the trader.

To ensure maximum profitability, scalpers need to ensure that they have access to real-time data, a direct-access broker, and the stamina required to place several trades in any given day. The idea is to have more profitable trades than lossmaking trades so that traders can end their day in the green.

Day Trading

Day trading is a trading style that focuses on opening and closing trades within the same day.

While earlier, this was only done by traders employed by large financial institutions, with the advent of online trading platforms, day trading has become much more accessible to the general populace.

Day traders apply a variety of different strategies and methods to identify profitable trading opportunities. They commonly rely on technical analysis since their timeframe is not long enough for fundamental analysis to come into play. However, they do trade on company announcements, earnings reports, and other fundamental factors.

Since day traders close their positions at the end of every day, they are immune from overnight and weekend changes in swing traders' prices.

In addition to technical analysis, day traders also incorporate various indicators that signal to them when there is a good buying or selling opportunity. A central risk-reward ratio also governs their trades. They require a high degree of objectivity and discipline to consistently profit in the market, alongside an ability to introspect and identify what went wrong whenever they have a loss making trade.

Positional Trading

For all intents and purposes, Positional traders are the opposite of day traders in that their time horizon is very long, often running into a year or even more.

They are “trend followers”, and they take positions they hold for a very long time until they get their desired profit. They operate under the fundamental belief that when a trend emerges, it is likely to continue for quite some time, and hence, it would be a good idea to follow the trend and ride it for profits.

Position traders often make very few trades in a year, and they are not really concerned with the day-to-day fluctuations in the stock prices.

What matters to them is the long-term trends, and the only reason they bother with the stock news is if there is something that fundamentally changes the company to the extent that would affect their long-term view of the position.

As you can imagine, these traders use both fundamental analysis and technical analysis, with the former helping them spot stable companies and the latter enabling them to identify trends as well as optimal entry and exit opportunities.

The Best Indicators You Can Use

Aside from the two forms of analysis, traders use several statistical indicators to identify trading opportunities and confirm their hypothesis about a given stock.

While there are hundreds of different indicators out there that you can choose from, most traders usually identify 2-3 of these indicators that work best for them. This is done over time with practice and experience. Some of the more commonly used indicators have been discussed below, such as the MACD, the RSI, and Bollinger Bands.

The Moving Average Convergence Divergence (MACD)

The MACD indicator indicates the trend and the direction of the momentum for any given stock.

It comprises two lines, and the direction in which these lines move can indicate where the trend for the stock is bearish or bullish, thereby providing trading opportunities.

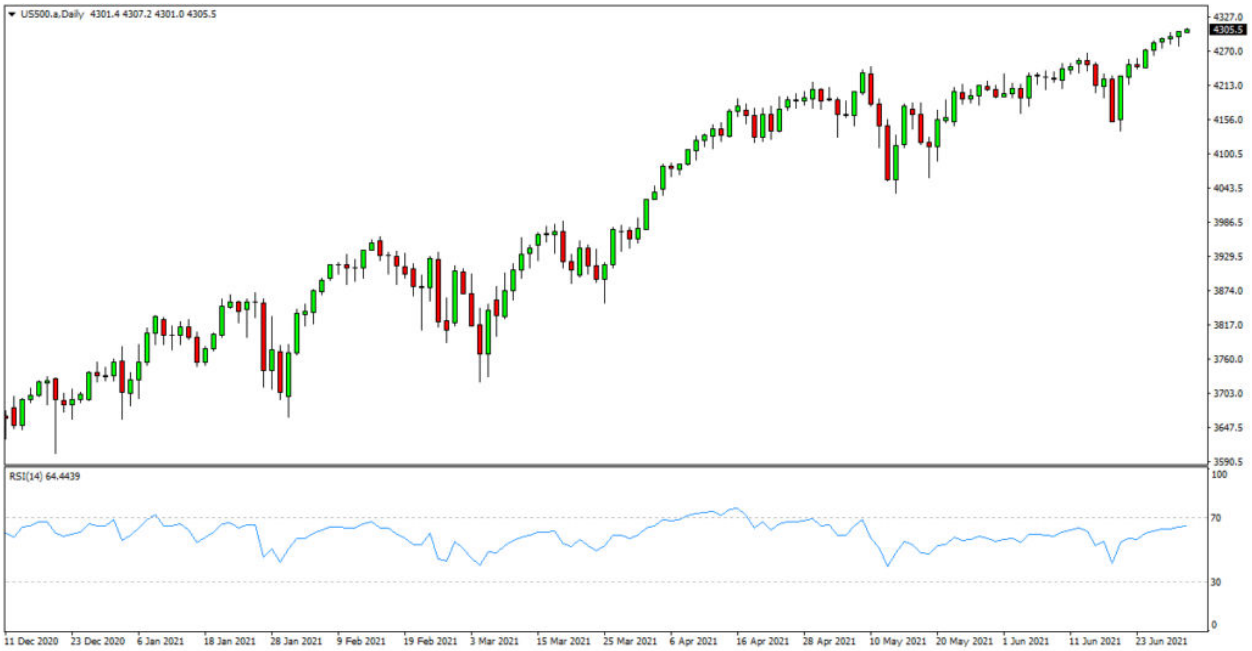
The two lines are called the signal line and the MACD line. When the MACD line crosses above the signal line, there is a bullish trend, and that it might be a good opportunity to buy the stock.

When the MACD falls below the signal line, prices are beginning to fall, which could indicate an opportunity to sell.

The Relative Strength Index (RSI)

The RSI is an indicator of two main things: the reversal of trends and the support and resistance levels for a particular stock.

It is a number between 0 and 100, and the number indicates the momentum and helps gauge the sentiment in the market.



When the RSI falls below 30, the stock is oversold and could indicate a reversal. Most traders start buying when a stock's RSI reaches below 30 and then begins to move up. Similarly, an RSI above 70 would indicate that the stock is overbought, and once the RSI starts falling, this would be a good opportunity to sell the stock.

The 30 and 70 RSI levels are also often used to establish support and resistance levels for the stock.

Bollinger Bands

Bollinger Bands are another statistical tool that indicates when a stock is being overbought or oversold using the average prices of the stock over a given period of time; the user can customize that. The main central line in the Bollinger bands is the Simple Moving Average (SMA) of the stock's closing prices over a given period of time.

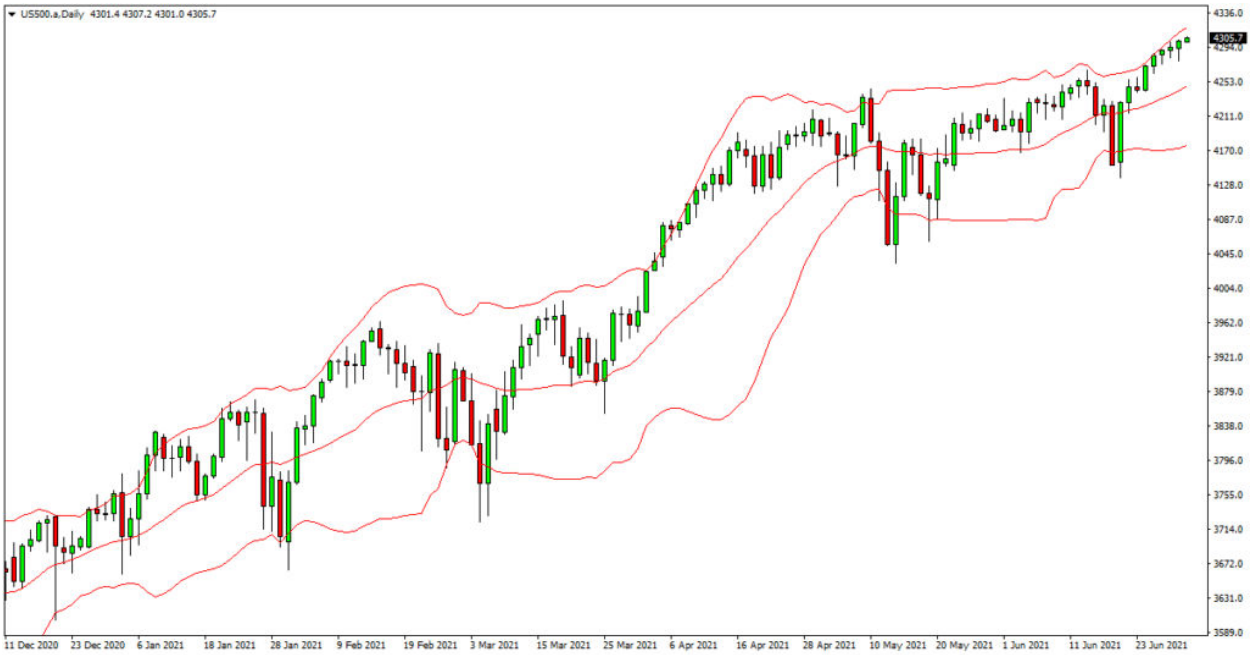
The two bands above the below the SMA line are calculated by:

Lower Band: SMA of the stock – 2 X (Standard Deviation of the stock over the same time period as the SMA)

Upper Band: SMA of the stock + 2 X (Standard Deviation of the stock over the same time period as the SMA)

When the stock price crosses over the upper band, this indicates that the stock is overbought and could mean a possible trend reversal coming.

When the stock price goes below the lower band level, this indicates overselling and could mean that the prices are about to rise soon.



Lastly on Professional Trading Strategies

Every trader has their own unique style that they have developed over a long time of trading the markets. However, where it all starts is acquiring the theoretical knowledge that you need to begin trading the markets. Once you have that, you can then identify your risk appetite, timeline, and the kind of trading you wish to do.

Accordingly, you will have to formulate strategies and constantly improve them to reflect changing market conditions.

The above-mentioned strategies provide a good foundation upon which you can build your own trading experience in a profitable and disciplined manner to join the tiny group of traders who can consistently profit in the markets over a long period of time.

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