Stock Markets Guides

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Stock Trading Strategies In-Depth Guide

Over the past year, we have witnessed the rise of retail investors in the stock market, partly thanks to the global lockdowns brought by the coronavirus pandemic. Although most traders adopted the herd mentality and profited through the Reddit contagion and the rise of meme stocks, this isn't a sustainable or profitable stock trading strategy in the long term.

In this post, we go through the different types of stock trading strategies and how to use them to find the best trades.

Trading Strategies for Beginners

One of the most talked-about characteristics of successful traders is that they have a trading strategy.

A trading strategy is best described as a personal trading guide that includes your financial goals, risk management techniques you will employ in different scenarios, and your preferred assets. Always ensure to have a well-researched trading strategy that is personalized.

To create a good trading strategy, you need to ask yourself these questions.

- Why do you want to trade, and what type of trader do you want to be?
- How much money are you willing to risk investing?
- How much time can you dedicate to trading?
- Do you accept the risks that are involved in trading?

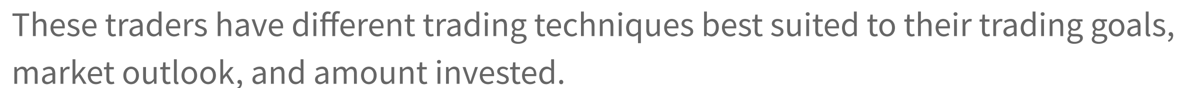
Remember that your trading strategy should be grounded on logical research, have well-established entry and exit points, and proper risk management techniques.

When developing your trading strategy, you must remember that this is not a rigid strategy; you should be open to modifying it.

It is easier to be accountable when using a few strategies in your trades than implementing several strategies. This would make your trades seem random, and it would be difficult for you to assess your progress. It also helps you to remain consistent.

Obviously, no single trading strategy is 100% profitable; what matters is that the number of winning trades should be more than those of the losing ones.

The only way you get to see this is by monitoring your trades in the long term preferably, with a trading journal. It also helps you improve your trading strategies since you can tweak the strategy as time goes by. This is done by identifying the strengths and weaknesses of your strategies.



These traders have different trading techniques best suited to their trading goals, market outlook, and amount invested.

Let's break them down.

Stock Day Trading Strategies

As the name suggests, intraday trading involves opening and closing positions within the trading day. No position remains open overnight.

Typically, stock day trading strategies often fall under momentum trading, scalping, and market-neutral trading.

Day trading demands intense knowledge of technical indicators and price action analysis. Note that as a day trader, you can either trade stocks or stock CFDs.

Scalping

Scalpers are traders who open and close positions within a very short period. The duration of a single trade could range from a few seconds to a couple of minutes.

Scalpers do not remain in a position for long as their primary goal is to earn as many dollars in a very short period. Market volatility is a scalper's best friend. With frequent market volatility, scalpers can open a long position, close it in a few minutes, open a short position, and so forth.

In a single trade, scalpers often target 10 to 50 cents, accumulating massive profits over the long run.

Successful scalping often requires precise technical analysis and chart analysis skills. This way, scalpers can easily and almost effortlessly identify accurate trading opportunities. Scalping often relies on minute charts to identify trading opportunities.

Momentum Trading

Momentum traders heavily rely on identifying price breakouts. That's because breakouts often indicate that the prices are more likely to form higher highs or lower lows.

Momentum traders do not necessarily keep their positions open throughout the day.

Some of the positions can only remain open for a few hours. That is because intraday traders often have a minimum target number of ticks they aim to earn in a day. When this goal is achieved, they close their positions and call it a day. However, if they won't have achieved their daily trading objective by the end of the day, they also close any open positions.

Typically, intraday traders also rely heavily on technical analysis when executing their trades. Observing the short-term and medium price action helps them identify the ideal entry and exit positions. They rely on hourly and daily charts to set up their trades.

Market-neutral Traders

This trading strategy emphasizes benefiting from the price asymmetry of the stock market. The theory behind it is that at some point, the price will always trend back to its average through price recovery.

That means one must be familiar with the stocks in a particular industry.

This strategy requires opening a long position in one stock and two short positions in other related stocks. By doing this, you aim to capitalize on the relative performance of one stock while hedging the risk carried by that particular industry.

One of the most important things to note for day traders is the impact that slippages have on overall trading costs. Slippages are especially notorious during a period of high volatility, which, as we've mentioned above, is particularly favored by stock day traders.

When trading stocks, the expected price of a transaction and the actual price may differ. This difference is called slippage. It can occur at any time but is particularly evident in market orders in periods of increased volatility.

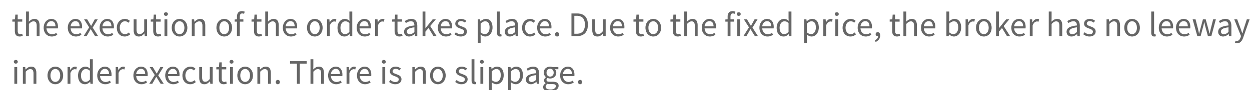
Slippage on the capital market is understood as the circumstance when a buy or sell order is executed at a better or worse price than expected. This effect is problematic for the trader in the event of deviations that lead to a loss.

Usually, a securities order without limit orders is executed at the lowest price offered by the chosen exchange or market maker. The price calculated in advance by the broker does not necessarily have to match this execution price. The difference between the intended and the actual execution price can be classified as follows.

- Positive slippage: actual execution price > expected execution price
- Negative slippage: actual execution price < expected execution price

In practice, market prices for securities and derivatives change so quickly that even a small difference in time between order and execution leaves room for this effect.

An effective way to avoid negative slippage is using pending orders. In these buy orders, the investor defines a fixed buy price. Only when this is reached or undercut,



the execution of the order takes place. Due to the fixed price, the broker has no leeway in order execution. There is no slippage.

The risk with this approach is that the order may not be executed because the security price does not reach the limit. If price fluctuations occur at very short notice, there is also an increased risk that the limit will be undercut in the short term, but the order will still not be executed.

Stock Swing Trading Strategies

Unlike scalpers and day traders, swing traders often seek to accumulate larger profits by keeping their positions open for longer periods, typically ranging from a few weeks to months. Swing traders aim to take advantage of the subsequent news release.

By definition, swing trading involves buying and selling stocks after significant price fluctuations.

Swing trading involves identifying dominant market trends and establishing peaks (swing highs) and troughs (swing lows). This essentially means drawing support and resistance lines over a specified period. The primary goal of swing trading is to spot short-term price pullbacks within a long-term trend.

Swing traders believe that the market will continue in this long-term trend. For example, if the longer-term trend is bullish, swing traders go long when the price pulls back and bounces off the short-term support level.

Similarly, when in a downtrend, they short the market when the price pulls back and bounces off the short-term resistance level.

Apart from using the support and resistance levels, one of the most popular swing trading strategies is channel trading.

Typically, when the market has been trending then begins trading within a channel, you can always use the upper and lower bounds of the channel to trade breakouts.

Swing trading indicators and swing trading signals are mainly about the high points and low points as an analysis method. This information can be used to determine a trend.

Important swing trading signals are the reversal points of the charts, which can be easily determined with the Zig-Zag indicator. This Zig-Zag indicator is integrated into any better chart software, making it easier to define swing trading points.

In the end, you then take advantage of the counter-movements in the trend to trade positions in the trend direction. This requires discipline and perseverance because, as a swing trader, you have to monitor the price constantly.

In short, swing trading works like this: Buy as cheaply as possible and sell as expensively as possible. Over time, you then develop a sense of which turning points could potentially be lucrative and where the loss limits lie.

Stock Option Trading Strategies

Options are among the most flexible financial instruments and can also be successfully used by private investors. They provide the best way for traders to hedge their portfolios against future losses or price fluctuations.

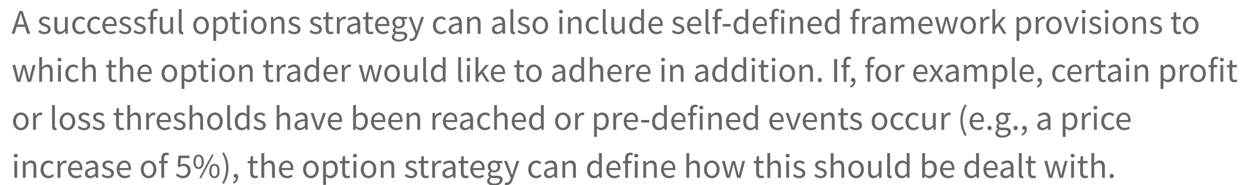
However, traders can also purchase options to speculate in the stock market without taking possession of the actual underlying stocks.

Stock options can either be a call or put options.

Call options (call options) secures a buyer's right to buy an underlying asset at an agreed price (strike price) and date. Calls can be both bought and sold. The purchase of a call option is referred to as the opening of a long position (long call), whereas the sale is called a short position (short call).

Put options (put options) secures a buyer's right to sell an underlying asset at an agreed price in the future. They can be both bought and sold. The purchase of a put option is referred to as the opening of a long position (long put), whereas the sale is called a short position (short put).

	Call	**Put**
Long	benefits from rising prices	benefits from falling prices
Short	benefits from falling prices	benefits from rising prices



A successful options strategy can also include self-defined framework provisions to which the option trader would like to adhere in addition. If, for example, certain profit or loss thresholds have been reached or pre-defined events occur (e.g., a price increase of 5%), the option strategy can define how this should be dealt with.

In this context, acting options may also require learning a certain "mental strength".

The option trader should discard the self-set rules and act accordingly when the strategy is implemented in practice. For example, if the loss of a position is so high that the pre-defined strategy would provide for the sale, this should then also be implemented in practice.

If a strategy or parts of it prove to be non-useful, they can be adjusted by the option dealer at any time.

Remember that for any derivative transactions, there's always a buyer and a seller. For these counterparties, the desirable exercise price is always different.

For example, an option seller earns a higher premium if they draw the option deep in the money. However, the problem here is that if they don't want it to be exercised with a high degree of probability. If this is not desired, the strike price should be closer to the current price, even if the premium is then lower.

Fundamental Stock Market Strategies

This trading strategy hinges on the intrinsic value of the company. Remember that the value of a company comes from its worth, which is often determined by its profitability, and financial health.

Fundamental analysis involves analyzing a company's financial statements, supply chain, management and management style, and industry analyses. The findings from this analysis determine whether to hold and buy the company's stock or short it.

If the company fundamentals are strong with rosy prospects, it only stands to reason that its shares will appreciate it in the long run. Conversely, short the shares if the company is in poor financial health, constantly going through managerial changes, or has strong competitors.

This stock trading strategy is similar to position trading. Position traders hold their positions for very long periods, averaging a couple of months.

In most cases, it is considered an extended version of swing trading. This trading technique shares fundamental properties since traders buy and hold their stocks for a longer period.

However, position traders may cash out their portfolios along the way if the market starts to trend against them. They also open new positions along the way when prices dip. This trading technique is one of the simplest, but it requires patience, self-discipline, and a good understanding of sentimental analysis.

Position traders need to conduct thorough due diligence to establish the viability and sustainability of the company before investing.

Penny Stock Trading Strategies

Thanks to their cheap pricing, penny stocks often appear lucrative to beginner traders and investors. Most of them tend to be either extremely volatile or inactive, making it imperative to recognize the best penny stock trading strategy. However, keep in mind that, unlike mainstream stocks, penny stocks can be easily manipulated.

Regardless of whether you are trading using technical or fundamental analysis, here are two basic strategies for trading penny stocks.

1. Only select penny stocks with a net price change of between 5% to 10%

Various stock market screeners will enable you to identify the best stocks to trade. At average price volatility of between 5% and 10%, you get to avoid penny stocks that are prime for pump and dump schemes and those with runaway prices.

This helps keep your portfolio steady and balanced.

1. Search for penny stocks with high trading volumes of at least 250,000 daily turnover

Again, you can achieve this with the help of stock market screeners. High daily turnover guarantees that you will receive tighter spreads. More so, high liquidity means that you can open and close positions with minimal slippage.

Trading Strategy Examples

With [day trading] becoming increasingly popular among retail traders, let's look at an example using the EMA.

Unlike the SMA, the EMA is more responsive to price changes since it attaches more weight to the most recent price changes. In our example, we have used two EMAs, a 20-period EMA, and a 50-period EMA.; the crossover between the two gives a signal to buy or sell.

The buy signal is generated when the 20-period EMA crosses above the 50-period EMA. This means that the most recent prices are rising faster hence a bullish trend.

Conversely, a bearish trend occurs when the 20-period EMA crosses below the 50-period EMA.

Lastly on Stock Market Trading Strategies

Being a profitable trader is a skill that is honed over a long period.

To gain mastery of the markets, you must practice first trading in a demo account. A demo account provides you with a real trading experience without you having to risk your capital. Here, you can practice different trading strategies, and conduct thorough backtests to determine which ones will be profitable in the long run.

After you are confident that you have a winning strategy, you may want to try trading with a real account using a small capital first. This will help you cope with the mental strain involved when trading using real money.

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