

Twitter Thread by TraderLion



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10 Essential Trading Principles (Thread)



1■■ Trade Plan:

The first thing before a position is initiated is a clear plan must be in place detailing specific entry areas, their associated sell stops, and potential profit-taking zones.

Below are some factors to consider when crafting your trade plan:

- Individual Goals
- Personal Progress
- Current Market Environment
- The many fundamental and technical factors relevant to each individual stock, its sector, industry group, and its overall strength relative to the rest of its industry.

2■■ Risk Management:

This is the golden key to consistent success in the stock market. Yes, it is even more important than stock selection.

Bernard Baruch, a close friend of Livermore said even being right 3 or 4x out of 10 should yield a person a fortune if he cuts his losses.

3■■ Annual & Quarterly Earnings:

Look for companies with:

- Annual earnings that are positive and have been increasing YoY for at least 3 years.
- At least 25% QoQ earnings/sales growth for a minimum of 3 quarters.

These are early indicators a stock may be ready to explode.

4■■■ Direction of the General Market:

Three-quarters of all stocks follow the direction or trend of the general market. William O'Neil would often say that getting this part of the equation correct is more than half the ballgame.

Keep in mind however that the stock market is half science and half art. Hence, this only solves the first half of the equation. The other half involves qualitative factors that largely concern the overall health and breadth of the market's leadership.

Understanding how to correctly interpret the action of the market's leadership is crucial, especially when the general market is in a correction or consolidation mode. Healthy rotation is always the key.

5■■■ Emotional & Psychological Capital:

Understanding how to properly manage one's emotional and psychological capital is every bit as important, if not more so than the proper management of one's financial capital.

This goes well beyond simply understanding your psychology and emotions as they pertain to trading. How you handle your personal life plays a big role as well.

For example, things like your health, the health of your loved ones, all of your relationships, and personal finances are just as important as your trading and must be kept in balance as best as possible.

Check out our post 10 Ways to Train your Brain ■

<https://t.co/VhuF8lt8QC>

6■■■ Relative Strength:

Buy the strongest stocks, in the strongest groups, with the strongest fundamental story and strongest growth characteristics. Period.

Add the RS Line to your charts. Easy and Free ■

<https://t.co/nZP1LYE6qP>

In general, the RS line for a stock should be in an uptrend and at a bare minimum, confirming new highs in price as a stock moves higher.

When the general market is consolidating or correcting, the RS line should start to make new highs ahead of a stock's price.

7■■■ Liquidity:

The more money you manage, the more you will learn to love liquidity. However, extremely large-cap stocks can become quite sluggish and slow.

According to a 40-year study by William O'Neil, if all else is equal when given the choice between two stocks, choose the stock with the lower amount of total shares outstanding in their capitalization.

8■■■ Institutional Sponsorship:

Large institutions account for over 70% of the market's total volume. Some manage hundreds of billions of dollars. So when one of their portfolio managers decides to take a position in a stock, it can take weeks to months for them to accumulate.

It is often very difficult for large institutions to hide their tracks especially when they are all trying to pile into these same stocks. It is for this reason why heavy volume accumulation or distribution is so important and used to identify institutions entering or exiting.

9■■■ Optimal Entry:

This is the point where risk/reward is highly skewed in your favor.

- Limit your buying activity to stocks that have formed constructive bases.

■ New Leadership:

The USA is often on the leading edge when it comes to developing new products and services that change the way we live, work and communicate. These companies are the lifeblood of a healthy bull market and the key ingredient to a sustainable uptrend.

Every bull market or uptrend is led higher by at least 2 or 3 groups of well-established leadership and every new bull cycle should be led by a fresh batch of new leaders.

Rarely does old leadership come back to life, and the ones that do typically take a very long time.