

Contents at a Glance

<i>Introduction</i>	1
<i>Part I: Getting into the Swing of Things</i>	7
Chapter 1: Swing Trading from A to Z.....	9
Chapter 2: Understanding the Swing Trader's Two Main Strategies	25
Chapter 3: Getting Started with Administrative Tasks	41
<i>Part II: Determining Your Entry and Exit Points: Technical Analysis</i>	57
Chapter 4: Charting the Market	59
Chapter 5: Asking Technical Indicators for Directions.....	89
Chapter 6: Analyzing Charts to Trade Trends, Ranges, or Both	117
<i>Part III: Digging Deeper into the Market: Fundamental Analysis</i>	141
Chapter 7: Understanding a Company, Inside and Out.....	143
Chapter 8: Finding Companies Based on Their Fundamentals	163
Chapter 9: Six Tried-and-True Steps for Analyzing a Company's Stock	181
<i>Part IV: Developing and Implementing Your Trading Plan</i>	201
Chapter 10: Strengthening Your Defense: Managing Risk	203
Chapter 11: Fine-Tuning Your Entries and Exits	231
Chapter 12: Walking through a Trade, Swing-Style	247
Chapter 13: Evaluating Your Performance	263
<i>Part V: The Part of Tens</i>	277
Chapter 14: Ten Simple Rules for Swing Trading.....	279
Chapter 15: Ten Deadly Sins of Swing Trading	289
<i>Appendix: Resources</i>	299
<i>Index</i>	309

Table of Contents

.....

<i>Introduction</i>	1
About This Book	2
Conventions Used in This Book	3
Foolish Assumptions	3
How This Book Is Organized	4
Part I: Getting into the Swing of Things	4
Part II: Determining Your Entry and Exit Points:	
Technical Analysis	4
Part III: Digging Deeper into the Market: Fundamental Analysis	4
Part IV: Developing and Implementing Your Trading Plan	5
Part V: The Part of Tens	5
Icons Used in This Book	5
Where to Go from Here	6

Part I: Getting into the Swing of Things

Chapter 1: Swing Trading from A to Z

What Is Swing Trading?	10
The differences between swing trading and	
buy-and-hold investing	11
The differences between swing trading and day trading	12
What Swing Trading Is to You: Determining Your Time Commitment ...	13
Swing trading as your primary source of income	13
Swing trading to supplement income or improve investment	
returns	14
Swing trading just for fun	15
Sneaking a Peek at the Swing Trader's Strategic Plan	15
The "what": Determining which securities you'll trade	16
The "where": Deciding where you'll trade	18
The "when" and the "how": Choosing your trading	
style and strategy	19
Building Your Swing Trading Prowess	24

Chapter 2: Understanding the Swing Trader's **Two Main Strategies**

Strategy and Style: The Swing Trader's Bio	25
Two forms of analysis, head to head	26
Scope approach: Top down or bottom up?	27
Styles of trading: Discretionary versus mechanical	28

Wrapping Your Mind around Technical Theory	29
Understanding how and why technical analysis works.....	29
Sizing up the technical advantages and disadvantages.....	31
The two main aspects of technical analysis.....	33
Appreciating the Value of the Big Picture: Fundamental Theory.....	34
Understanding how and why fundamental analysis works.....	35
Surveying the fundamental advantages and disadvantages	36
Looking at catalysts and the great growth/value divide	38

Chapter 3: Getting Started with Administrative Tasks 41

Hooking Up with a Broker	42
Choosing a broker.....	42
Opening an account.....	45
Selecting Service Providers.....	46
Providers to do business with	46
Providers to avoid	50
Starting a Trading Journal.....	52
Creating a Winning Mindset	56

Part II: Determining Your Entry and Exit Points: Technical Analysis 57

Chapter 4: Charting the Market 59

Nailing Down the Concepts: The Roles of Price and Volume in Charting.....	60
Having Fun with Pictures: The Four Main Chart Types.....	61
Charts in Action: A Pictorial View of the Security Cycle of Life	64
The waiting game: Accumulation.....	64
The big bang: Expansion.....	66
The aftermath: Distribution.....	67
The downfall: Contraction	69
Assessing Trading-Crowd Psychology: Popular Patterns for All Chart Types.....	70
The Darvas box: Accumulation in action.....	71
Head and shoulders: The top-off	73
The cup and handle: Your signal to stick around for coffee.....	74
Triangles: A fiscal tug of war	76
Gaps: Your swing trading crystal ball	77
Letting Special Candlestick Patterns Reveal Trend Changes	80
Hammer time!	80
The hanging man (Morbid, I know)	82
Double vision: Bullish and bearish engulfing patterns	82
The triple threat: Morning and evening stars	83

Measuring the Strength of Trends with Trendlines 85
 Uptrend lines: Support for the stubborn bulls..... 86
 Downtrend lines: Falling resistance 87
 Horizontal lines: Working to both support and resist 88

Chapter 5: Asking Technical Indicators for Directions. 89

All You Need to Know about Analyzing Indicators Before You Start 90
 You must apply the right type of indicator 90
 Not all price swings are meaningful 90
 Prices don't reflect volume, so you need to account for it 92
 An indicator's accuracy isn't a measure of its value..... 92
 Two to three indicators are enough..... 93
 Inputs should always fit your time horizon..... 94
 Divergences are the strongest signals in technical analysis..... 95
 Determining Whether a Security Is Trending 95
 Recognizing Major Trending Indicators 97
 The compass of indicators: Directional Movement Index (DMI)... 98
 A mean, lean revelation machine: Moving averages 100
 A meeting of the means: MACD..... 105
 Spotting Major Non-Trending Indicators..... 107
 Stochastics: A study of change over time..... 108
 Relative Strength Index (RSI): A comparison
 of apples and oranges..... 111
 Combining Technical Indicators with Chart Patterns 114
 Using Technical Indicators to Determine Net Long or Net
 Short Positioning..... 115

Chapter 6: Analyzing Charts to Trade Trends, Ranges, or Both. . . . 117

Trading Trends versus Trading Ranges: A Quick Rundown 118
 Trading on Trends..... 120
 Finding a strong trend..... 120
 Knowing when to enter a trend..... 122
 Managing your risk by setting your exit level 124
 Trading Ranges: Perhaps Stasis Is Bliss?..... 125
 Finding a security in a strong trading range 125
 Entering on a range and setting your exit level 127
 Comparing Markets to One Another: Intermarket Analysis..... 128
 Passing the buck: The U.S. dollar 128
 Tracking commodities..... 130
 Watching how bond price and stock price
 movements correlate..... 133
 Putting Securities in a Market Head-to-Head:
 Relative Strength Analysis 134
 Treating the world as your oyster: The global scope 135
 Holding industry groups to the market standard..... 137

***Part III: Digging Deeper into the Market: Fundamental Analysis* 141**

Chapter 7: Understanding a Company, Inside and Out 143

Getting Your Hands on a Company's Financial Statements.....	144
What to look for	144
When to look	145
Where to look	146
Assessing a Company's Financial Statements	146
Balance sheet	147
Income statement	151
Cash flow statement	153
Not Just Numbers: Qualitative Data.....	156
Valuing a Company Based on Data You've Gathered	158
Understanding the two main methods of valuation.....	158
Implementing the swing trader's preferred model.....	159

Chapter 8: Finding Companies Based on Their Fundamentals 163

Seeing the Forest for the Trees: The Top-Down Approach.....	163
Sizing up the market.....	164
Assessing industry potential.....	170
Starting from the Grassroots Level: The Bottom-Up Approach	172
Using screens to filter information.....	173
Assessing your screening results	179
Deciding Which Approach to Use	179

Chapter 9: Six Tried-and-True Steps for Analyzing a Company's Stock 181

The Six Step Dance: Analyzing a Company	181
Taking a Company's Industry into Account.....	183
Scoping out markets you're familiar with.....	184
Identifying what type of sector a company is in.....	184
Determining a Company's Financial Stability	187
Current ratio.....	188
Debt to shareholders' equity ratio	188
Interest coverage ratio	189
Looking Back at Historical Earnings and Sales Growth.....	190
Understanding Earnings and Sales Expectations	192
Checking Out the Competition	194
Valuing a Company's Shares	197
Gauging shares' relative cheapness or expensiveness.....	197
Figuring out whether the comparative share-price difference is justified	198

***Part IV: Developing and Implementing
Your Trading Plan..... 201***

Chapter 10: Strengthening Your Defense: Managing Risk 203

Risk Measurement and Management in a Nutshell 205

First Things First: Measuring the Riskiness of Stocks
before You Buy..... 205

 Assessing the beta: One security compared to the market 206

 Looking at liquidity: Trade frequency..... 207

 Sizing up the company: The smaller, the riskier 208

 Avoiding low-priced shares: As simple as it sounds 209

Limiting Losses at the Individual Stock Level..... 209

 Figuring out how much you're willing to lose..... 210

 Setting your position size 211

Building a Portfolio with Minimal Risk 215

 Limit all position losses to 7 percent 215

 Diversify your allocations..... 217

 Combine long and short positions 220

Planning Your Exit Strategies..... 221

 Exiting for profitable trades 221

 Exiting based on the passage of time 225

 Exiting based on a stop loss level..... 225

Chapter 11: Fine-Tuning Your Entries and Exits 231

Understanding Market Mechanics 231

Surveying the Major Order Types 233

 Living life in the fast lane: Market orders 233

 Knowing your boundaries: Limit orders..... 234

 Calling a halt: Stop orders 234

 Mixing the best of both worlds: Stop limit orders..... 234

Placing Orders as a Part-Time Swing Trader 236

 Entering the fray 236

 Exiting to cut your losses (or make a profit) 237

Placing Orders if Swing Trading's Your Full-Time Gig 237

 Considering the best order types for you 238

 Taking advantage of intraday charting to time
 your entries and exits..... 238

 Investigating who's behind the bidding: Nasdaq
 Level II quotes..... 241

Chapter 12: Walking through a Trade, Swing-Style 247

Step 1: Sizing Up the Market..... 247

 Looking for short-term trends on the daily chart..... 248

 Analyzing the weekly chart for longer-term trends..... 249

Step 2: Identifying the Top Industry Groups.....	250
Step 3: Selecting Promising Candidates.....	251
Screening securities	252
Ranking the filtered securities and assessing chart patterns	252
Step 4: Determining Position Size.....	255
Setting your stop loss level	256
Limiting your losses to a certain percentage.....	257
Step 5: Executing Your Order.....	258
Step 6: Recording Your Trade.....	259
Step 7: Monitoring Your Shares' Motion and Exiting	
When the Time is Right	259
Step 8: Improving Your Swing Trading Skills	261

Chapter 13: Evaluating Your Performance 263

No Additions, No Withdrawals? No Problem!	263
Comparing Returns over Different Time Periods:	
Annualizing Returns	264
Accounting for Deposits and Withdrawals:	
The Time-Weighted Return Method	266
Breaking the time period into chunks.....	268
Calculating the return for each time period.....	270
Chain-linking time period returns to calculate a total return	271
Comparing Your Returns to an Appropriate Benchmark.....	272
Evaluating Your Trading Plan	276

***Part V: The Part of Tens*..... 277**

Chapter 14: Ten Simple Rules for Swing Trading 279

Trade Your Plan.....	279
Follow the Lead of Industry Groups as Well as the Overall Market.....	281
Don't Let Emotions Control Your Trading!	282
Diversify!.....	283
Set Your Risk Level.....	283
Set a Profit Target or Technical Exit	284
Use Limit Orders.....	284
Use Stop Loss Orders.....	285
Keep a Trading Journal.....	286
Have Fun!	287

Chapter 15: Ten Deadly Sins of Swing Trading 289

Starting with Too Little Capital.....	289
Gambling on Earnings Dates	291
Speculating on Penny Stocks	291

Changing Your Trading Destination Midflight 292
 Doubling Down..... 293
 Swing Trading Option Securities 294
 Thinking You’re Hot Stuff 295
 Concentrating on a Single Sector 296
 Overtrading 296
 Violating Your Trading Plan..... 297

Appendix: Resources 299

Sourcing and Charting Your Trading Ideas 299
 Trading ideas: MagicFormulaInvesting.com 299
 Trading software: *High Growth Stock Investor* 300
 Financial newspaper with stock ideas:
 Investor’s Business Daily 301
 Charting software: *TradeStation* 302
 Doing Your Market Research 303
 PIMCO’s Bill Gross commentary 303
 Barron’s weekly financial newspaper 304
 Keeping Tabs on Your Portfolio and the Latest Market News 305
 Yahoo! Finance portfolio tool..... 305
 Yahoo! Economic Calendar..... 305
 Fine-Tuning Your Trading Techniques 306
 Technical Analysis of Stocks & Commodities magazine 307
 The Black Swan: The Impact of the Highly Improbable 307

Index 309

