Cannon Trading Education

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One Way to Eliminate Fear and Greed While Day Trading

Introduction

It is a known fact that fear and greed can be a trader's worst enemies.

One way that may help some clients deal with fear and greed and avoid getting out of winners too soon and staying in losers too long is **entering multiple contracts**.

Philosophy

In order to enter multiple contracts while day trading, one has to have the appropriate risk capital and margin requirements. But the advantage of trading more than one "unit" or splitting your trading size into two or more parts is as such:

If you enter a trade with one contract (or if you are treating your trading size as one unit, meaning you enter a trade with 4 contracts and exit the trade with 4 contracts), you can face a very quick dilemma, especially when day-trading. Consider the two following scenarios:

1. You get in and very quickly you are up 2 mini SP points…what do you do? Do you take profit? Bring your stop loss closer? How do you avoid getting out too early or too late?
2. You enter a trade and it goes against you rather quickly…if you get out then it is a loser...but the little voice in your head says "what if the market goes back up?"

In the first case scenario, when market decided to be nice to us and moved in our direction, I like to exit half of my positions relatively quickly. In the case of the mini SP, this would be around 7 ticks profit.

What I've found is that this will allow me to manage the rest of the trade in a much more relaxed manner. Since I've already locked profits in, now I can look for a proper stop close to my break-even level. I can analyze my next target more realistically and, if the market provides room for additional gains, be there to participate.

In the second case scenario, I can choose to risk a smaller amount or use a tight stop on the first half of my position and a bit wider stop on the other half of the position. This can help prevent the scenario when one does not get out of a trade because mentally one does not want to accept the loss.

Of course, there is much more to trading and day trading. Entry signals, exit techniques, why and when to get in a trade, and so on -- all of these are key.

But I hope that this tip will assist you while trading and will prevent some of the instances where you get out of a trade too late or too early.

Examples

In the following chart, we received a buy signal and were able to take quick profit on first half of position rather quickly and then move stop loss on the second half to around 1054 (a half point below FIB level).

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In the next chart, the second half got stopped out. But the fact that we were able to take profit on the first half of the position gave us the mental ability to relax and give the trade a chance. We used the same principal of entering the trade with more than one unit. The fact that first target was achieved gave us the patience and the ability to avoid the fear of losing existing profits and enabled us to reach the second target of 1047.75 (half point above FIB extension for that time).

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In the third example, you can see a sell signal. Stop was 1065.50 for first half and 1066.50 for the second half. In this case, the stop for both was hit. But the layered stop allowed us to be in the market and avoid the temptation of raising stops or canceling them, as even after the first stop got hit, the trade still had a chance with the second half of the position.

First Stop

 Wed Oct 28 2009 11:53:33

Second Stop

 Wed Oct 28 2009 11:53:59

Good Trading!

Disclaimer

The material contained in this letter is of opinion only and does not guarantee any profits. These are risky markets and only risk capital should be used.

Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial, carefully consider the inherent risks of such an investment in light of your financial condition.

Day trading can be extremely risky. Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. And more, you should not fund day-trading activities with funds required to meet your living expenses or change your standard of living.

You should be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.

Day trading will generate substantial commissions, even if the per trade cost is low. Day trading involves aggressive trading, and you will pay commission on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings.

Day trading on margin may result in losses beyond your initial investment. An investment of less that $25,000 will significantly impair the ability of a day trader to make a profit. Of course, an investment of $25,000 or more will not guarantee success.

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