



Small Account CHALLENGE

Strategy Decision – Episode 2

At this point, there are still many unknowns in how I will approach this small account journey I haven't made final decisions on brokers or software, but I have finalized my trading strategy decision. That is what I will review here.

If you're trading a small account yourself, you can download or print this guide to help develop your own strategy.

Quality vs Quantity

With a small account I have to focus on each trade giving me the biggest return with the least amount of risk. That means my **quality threshold is going to be much higher** than in my larger trading accounts. When I think about quality, specifically this means I have to make sure that any trade I take meets many of the following criteria- outlined here but covered in more depth below.

1. The stock makes sense to trade
2. I have the right entry point
3. I select a reasonable share size
4. I manage my risk before and during the trade

Stock Selection

My process of finding stocks each morning will be to use stock scanners. I will search for the **biggest gapping stocks** and the **highest relative volume stocks**. A gap occurs when a stock opens higher than it closed the previous day. This is the result of breaking news that causes investors and traders to be willing to pay more for the stock than it was priced at during the previous trading session. Relative volume is often the result of breaking news as well. It means the stock is trading on much higher volume than what is normal for that stock.

These are the two types of stocks that will gain the most attention among day traders. Since I'm trading in a small account, I will focus only on stocks that are priced under \$20. However, I will set a min price of \$1.00, because trading penny stocks is very risky.

In order to be consistently profitable, I will want to be trading the "obvious" setups. If it's obvious to me, it will be obvious to thousands of other traders, and that means the stock will trade in a more predictable manner. My goal will be to focus on stocks that I truly believe have the potential to gain 20-30% during a day trade. This will allow me to quickly grow a small account.

In an upcoming video I'll talk specifically about the software I'll use for scanning, charting, and trading. This is all still To Be Determined, but I can assure you that whatever I decide on will be live streaming for Warrior Starter and Warrior Pro students to watch. That means you may not need your own subscriptions.

How will you find the right stocks?

Entry Setups

I will focus on the same patterns I used when I turned \$583 into \$1mil, and have continued to use everyday since crossing the \$1mil mark. **Pullback patterns** – A pullback pattern is when I buy a dip. It's sort of like "buy low sell high", except in the context of a day trade. I discuss these patterns extensively a part of the Warrior Starter and Warrior Pro classes.

These pullback setups will occur both on the 1min and the 5min time frame. However, these will only be appropriate on the **right type of stocks to trade**. So I will not apply this pullback setup to just any stock I see, but to stocks that are leading gappers or leading relative volume stocks.

**What patterns are you comfortable recognizing?
Where will you learn about them?**

Share Size Process

My share size and trade frequency limitations will be a factor of the broker I choose. This is TBD, however, I'll most likely use the most share size I can afford. One of Warren Buffet's quotes is that "diversification is a protection against ignorance. It makes little sense if you know what you are doing." In other words, when I see something I like, I'm all in.

What share size will you trade with? With your account, how many shares can you afford to trade of some recent stocks I've traded?
(Hint: watch my recaps and then look up the ticker symbols!)

Risk Management Technique

My biggest challenge here will be to avoid the temptation to swing for home runs. Home runs often come at the cost of base hits. I give up the base hit to go for the big trade. I won't be able to afford that during a small account challenge. This means being more mindful about taking profits quickly, and not holding for a big winner. I will aim for 75% accuracy with average winners being twice the size of my average losers.

Rule 1: Risk \$50 to make \$100 (during the first week)

Rule 2: Daily max loss at -\$100

Rule 3: Three consecutive losers and I'm done.

**What rules would you use to trade and mitigate risk?
How will you enforce them and keep track of them?**

Being Present...

It's extremely important when trading in a small account to be in the moment each day. That means accepting the current strength or weakness of the market. I have always had a hard time accepting weakness in the market. Everyday when I show up to trade I'd like to have a big winner. Unfortunately, that's not always possible. With a small account, I can't afford to take unnecessary risk. I'm that means I'm going to take it slow when the market is slow, and be aggressive only when the market gives me the green light.

**What will your pre-market trading routine be?
How will you manage emotion and gauge what kind of market we're in?**

Coming Soon...

Next week I'll be finalizing my broker decision!

Join the Challenge

Do you want to join me for the Challenge? Refer to the email you received with this lesson for an exclusive offer for our YouTube followers.