LESSON SIX: HOW LONG TO HOLD A TRADE OPEN

Talking about the strategy a trader should use can confuse some since the word strategy is used in differing ways. So, I will not call this segment a strategy; instead, we will call it a trading preference. The stock market trading methods can vary greatly depending on when a trader or investor intends to hold a position. Their preference for holding trades at different times results from many factors. Let’s discuss them now. There are generally three timeframe groups—short, medium, and prolonged holding of trades.

Short-Term Trading

In short-term trading, the trader looks for rapidly changing price action in the stock. This also means the trader is somewhat aggressive and agrees to spend extended time watching the trade move. If they do not watch the trade, it can result in significant losses. This time frame is for someone other than beginners. It will usually result in a high-stress effort, where anxiety and stress are prevalent.

Day Trading

This method means buying and selling securities on the same day. Traders close out positions by the end of the trading session to avoid overnight market risk. This is the pinnacle of aggressive high-stress trading. Movies have been made to illustrate the activities that traders go through that day. They can risk large amounts of money and conceivably make significant gains but also risk large losses. It is important to note that brokerages require a trader to place many funds in his account in day trade. The minimum to have in the account is $25,000, per federal law.

Scalping

This strategy involves traders making numerous daily trades to capture small price movements, often holding positions for mere minutes. However, there is also a form of scalping in which the activity is slowed, and the trades are held longer than day trading. The critical takeaway about scalping is that the trader is looking to capture the small gain when a stock’s price action periodically peaks rather than following the stock through a period of trending up.

Medium-Term Trading

Swing Trading

This is when traders hold positions for more than one day, usually less than a few days, to capitalize on expected upward or downward market shifts. This method relies heavily on technical or quantitative analysis to identify short-term trends.

Position Trading

A trader may hold stocks for weeks to months. They use a combination of fundamental and technical analysis to identify longer-term trends. They almost always trade with a stock's trend. With this method, there may also be a preference for a particular group of stocks.

Momentum Trading

This is where the trader identifies stocks moving significantly in one direction at high volume and attempts to ride the momentum to a desired profit. Sometimes, this trading is called surfing the momentum. These trades must be watched closely to avoid missing the peak and resulting in losses.

Long-Term Trading

Buy and Hold

With this method, Investors purchase and hold stocks for years, regardless of short-term market fluctuations, expecting their value to increase. This method is only relevant when the trader has deep pockets and can weather the inevitable drawdown periods (when the stock is below the entry price). This kind of trade is loosely managed because if it is watched closely by the investor, it is highly likely that emotions will weigh heavily on the trader. However, significant gains can be made if the stock is appropriately selected and the “luck” is on his side.

Value Investing

This method involves finding and buying undervalued stocks and holding them until their price reflects their intrinsic value. This is the “Warren Buffett” trading method. It requires deep and thorough research of the company being traded. Some would also call this “old school” investing.

Each trading method has its own set of strategies and risk profiles and requires different levels of market analysis. Traders and investors should choose a method that aligns with their investment goals, risk tolerance, and time horizon.

The Modern Trading System we will teach you in this course assumes that you are looking for regular income from investing. Therefore, we will use the “Swing Trading” method. It would be best to close trades to have monthly or quarterly income routinely. The Swing Trading method allows us to manage our risk, use probability and artificial intelligence to select the stocks to trade, and receive trading entry and exit signals from the AI.