

*From the Preface:*

# PREFACE

*It's 8:00 Monday morning, and I awake to the sounds of my alarm clock. I couldn't be happier: It is the beginning of another trading week. I roll out of bed, "commute" into the next room, and turn on my computer. The workweek has begun.*

*But this is not your typical 9-to-5 job. There is no office to go to, no rush hour subway commute, and no "good mornings" to co-workers. There is no boss in the next room. I don't produce a product, nor do I sell one. When people ask me what I do for a living, I pause. In fact, I don't really "do" anything. There are no projects and no deadlines. There are no co-workers, no staff, and most of all, no friends. I am known by account number only. I am in total isolation. The entire trading day I may not see or speak to another soul. The work is extremely intense. The pace is fast. It is a job unlike any other in the world.*

*Sometimes I do feel guilty. For over a decade, I have answered to no one. My day is spent in the comfort of my own home. People may criticize what I do, but on a good day I can make more money in a single afternoon than most of them may make in three months, without ever leaving the house. And on a bad day, I could lose that much or more. Still, I am not providing a service to anyone. Is the world a better place because of what I do? Sometimes I don't think so. Very few people understand. They think it's gambling: I tell them it's not.*

*I am a day trader. My job is to buy and sell stocks for a living. I do not work on Wall Street. My seat is not on the floor on the New York Stock Exchange, it is in cyberspace. This is rarefied air. These are untested waters. I am among a new breed of entrepreneur and this is a new frontier. But do I have what it takes? Mentally, am I strong enough?*

*I've been doing this for 11 years. In the past I have made very good money. But the past is for cowards. And there are no guarantees. Today I must make money.*

*It is now 9:30. The bell has rung and the stock market is open. I take my seat at the table with the world's biggest banks, brokerage firms, and mutual funds. The chess match has begun.*

It is hard to believe that nearly a decade has passed since I first wrote *Day Trade Online*. In 1998, when I put pen to paper as a first time author at the age of 25, never in my wildest dreams did I envision the amazing journey that I was to

embark upon. So here we are in 2008, preparing a revision to a book that became not only a national bestseller, but has been translated into languages around the world as well. To say that I am both honored and humbled by the response to this book over the past decade is an understatement.

It is my hope that this book is even more relevant today than it was when it was first written. There has never been a better time to trade the New York Stock Exchange than right now. Over the past few years, the NYSE has undergone more changes than perhaps at any other point in its long and storied history. These structural changes to the market have benefited the investing public in ways that were once only dreamed of and, in the process, have created tremendous opportunities for speculators to profit—but only if they know what to look for.

This is a golden age for online trading. Undoubtedly you have heard stories of savvy short-term traders, day traders, who have been able to make a living buying and selling stocks, sometimes in a period of minutes or even seconds. The goal of this book is to provide a comprehensive overview of how to be consistently profitable by trading stocks over the Internet. We will examine all aspects of this exciting arena, from what it takes to get started to an in-depth analysis of which trading techniques work, which don't, and why. Most importantly, the book will show you how to beat Wall Street at its own game by exploiting the buying and selling of the investing public in the same manner that the Street's most powerful brokerage firms and trading houses do.

The information provided here will reveal closely held and profitable short-term trading secrets that can only be learned from having worked on one of Wall Street's trading floors, combined with the real-life experience of someone who makes a living trading over the Internet. Quite simply, this is information that most stockbrokers, financial planners, and everyday investors do not possess. With this in mind, the emphasis is on simplicity. The best and most successful traders are those who keep things simple. This is a book on trading, not investing. Therefore it is written in a practical, nontheoretical (hypo: non-theoretical?) manner for the reader who might have little or no investment experience, but only the desire to learn more about one of the most exciting businesses of the millennium.

After graduating from Colgate University in 1995, where I majored in philosophy and religion, I began my career working for two large brokerage firms. First for Olde Discount in Detroit, then for Gruntal and Company, a firm founded in 1880, located at 14 Wall Street, right across the street from the New York Stock Exchange. At the age of 22, I was trading literally millions of dollars of the firm's capital. It didn't take long to learn how Wall Street made its money. There was a system in place, and there were traders such as myself whose sole job it was to exploit that system for profit. That's when I came to the realization that the

knowledge I had, if used the right way, could make me substantial amounts of money. I also decided I had wasted enough time making other people rich.

This was around the same time online trading was beginning to come into its own. The landscape of investing was changing and, thanks to the Internet, trades were becoming extremely cheap. It was slowly becoming clear that it was no longer necessary to work on Wall Street to participate in this game. The rules were changing, and the Internet was the key.

That was all I needed to know. For me, this was the opportunity of a lifetime, and I wasn't going to waste another minute. At the age of 23, I left Wall Street and began an exciting journey that led me to write this book. And now, some 12 years later, I am reflecting back upon what I have learned.

I wrote *Day Trade Online* for several reasons. First, it was to show the investing world that there is an alternative to the buy-and-hold strategy that most retail investors unfortunately utilize. In fact, as I write this in the spring of 2008, had you invested in the S&P 500 index on Dec. 31, 1999 and held until now, over 7 years later, you will have actually *lost* money. Of course, there is a place in every stock portfolio for long term investing; but don't believe them when they say it is the only game in town.

Second, I wrote this book to reveal the ways in which Wall Street is in the business of trading against the investing public, and to show how their profitability is made *at your expense*. Many of these trading strategies were shrouded in secrecy for decades, and were only known by the highly paid traders at the large Wall Street firms that employed them. The investing public, in most instances, didn't even realize the extent to which they were being exploited. However, with the advent of online trading, the secretive world of stock trading became open for all to see.

Some things never change. The house edge that Wall Street has had over the public for decades is in part still there. Even with the advancements in technology and the drastic changes to the rules that govern trading, the public is still at an inherent disadvantage to the market makers and floor traders that handle the public's buy and sell orders. However, there is a way to turn the tables, to put the odds in your favor, and to beat the Wall Street trading firms at their own game. After you read this book, you will know how.

Third, I wrote this book to answer some of the common myths, misinformation, and misperceptions that exist with regard to stock trading. Among them, to show the reader that you don't have to trade the most volatile Nasdaq stocks to make a living as a day trader. As I explain in detail, sometimes the NYSE and its specialist system can be an easier market to trade. Furthermore, you also do not need a bull market in stocks to make money as a trader. Bear markets and sideways markets can be just as profitable.

My hope is that this book stands in contrast to the many critics of short term trading, who, for as long as I have been trading, have said that day trading doesn't work, can't work, and never will work. This is based upon a fundamental misunderstanding of how the NYSE's specialist system works, and how an aggressive trader can exploit that system for profit. The idea that the individual, with his or her own capital, can exploit the short term movements of the market in the same way that the big wall street trading firms, the same way that the specialists on the floor of the NYSE do, goes against the grain of what these critics learned in Finance and Investing 101. So be it.

The critics of day trading base their argument on the idea that high portfolio turnover is devastating to long-term returns. Undoubtedly, you have heard the drumbeat of financial planners, academics, and financial magazine writers alike who proclaim that aggressively trading in and out of your stock portfolio is the pathway to ruin. You won't hear traders on Wall Street echo that sentiment. This is because they are too busy making millions trading in and out of the market to heed that advice.

The critics of day trading, however, are partially right. If you excessively trade when the odds are not in your favor, the money will go out of your pocket and into the pocket of the person taking the other side of your trades. But, if you are careful and only trade when the odds are in your favor, you will likely come out a winner over time. Case in point: I estimate that I have turned my own portfolio over some 5000 times in 11 years. 5000 times! I have paid upwards of 1 million dollars in online brokerage commissions, at \$8 bucks per trade. Adding up the buys and sells, I estimate that I have traded over 3 billion dollars worth of stock, (billion with a "b") and have traded several hundred millions shares. All of this from my home office, by myself, with a relatively small capital base by Wall Street standards. I hope that this proves that there is an edge in the marketplace. If there wasn't, with my own level of high turnover, I would have been buried long ago. The point here is that the independent trader, with a modest capital base, can compete and thrive in marketplace dominated by large Wall Street trading houses.

Unfortunately, day trading will always have a stigma attached to it. I often joke that the day trader is the ugly stepchild of Wall Street. Part of this lies in the fact that it, unfortunately, has always attracted some of the worst of characters: quick-buck artists and charlatans alike. The get-rich-quick mentality is the worst kind of mindset to have when approaching the markets. In fact, it goes against everything that I try to teach in this book. This is a long-term endeavor, one of grinding out high percentage profits and only putting your capital at risk when the odds are in your favor.

There are literally thousands of trading opportunities per day. Some only last for minutes, or seconds, but they are out there for the taking if you know what

to look for. No one is saying that it is easy or without risk. Nothing worthwhile ever is. There are two sides to every trade: a winner and a loser. And the odds are constantly changing. Sometimes they are well in your favor, and sometimes they are not. This book will help you differentiate between the two.

Thus, my sincere wish is that when you, the reader, finish this book, you will never look at the stock market in the same way again. Once you see the market thru the mindset not as an investor, but as a market maker, an NYSE specialist, you will view buying and selling in a way that you have never done before: from the perspective of the person taking the other side of your trade. Your time is very valuable and I take this responsibility very seriously. You will not be disappointed. I promise.