

Learning the Psychology of a Successful Trader

Momentum can make a stock move extremely rapidly in a very short space of time and this can create an outstanding lucrative profit opportunity for you. You will over time with experience, learn to recognize most of the typical chart patterns that will occur when stocks are experiencing a lot of volatility. Occasionally these stocks will move exceedingly well for no specific reason at all, but on other occasions it is either a news headline or a rumor that will cause these stocks to move upwards extremely rapidly. When a stock moves upwards on a news announcement the trade is actually very similar to a momentum trade that happens for no obvious reason but there are some clear-cut differences that you need to be aware of. Firstly, the timing is different on a news trade mainly because the momentum happens so much more rapidly than usual. Secondly, news produces opportunities with other stocks in the same sector that you may not have otherwise had a news announcement. We will now take a look at the timing of a news trade. When a share price has moved upwards because of either a good or a bad news announcement, you will straightaway see a rapid increase of trading volume as traders respond and buy the stock to take advantage of something positive or quite possibly will sell to take their profits if they previously owned the stock.

You usually will see a fair bit of volatility on the first day of the trade but as progressively more traders hear of the news there can be prolonged buying or selling pressure for the next day or two.

Most reactions to news will last usually from one to three days and most of the share price movement will take place invariably on the very first day. Because of this you will need to be very careful in setting your stop losses. But do not make them too tight, or you could be stopped out with little or no profit.

When you enter based on just news, only take the trade if the technical indicators support your entry. News trades can sometimes last up to three days and occasionally will dribble out after just one day of hectic trading. One of the great rewards of news trades like this, is that we are also able to take a look at other stocks in the same sector that may also be benefiting from the very same news source. This is usually referred to as a sector trade and this can be a very easy way to trade stocks in the same sector that may have experienced a run not quite as quickly as your first stock choice. When you do see a favorable news headline, always check out the stock with the news first, and then you can do some more research on the off chance you might quite possibly find yourself another sector trade. What you are keeping a lookout for is a stock that is moving exactly in the same direction as the stock with the news announcement. The most profitable trade is invariably made on the stock with the news but sometimes you can hear the news too late, just after the momentum run has faded out. If this has happened, you can still go looking for a sector trade and hopefully find other stocks within the same sector that have also benefited from the same piece of news. Momentum trades are happening continuously in the stock market. Whether it is from news, or just a sudden upsurge in buying or selling pressure due to the activities of day traders. Remember that the secret to trading these strategies can be always found in the technical indicators. So learn to watch for these basic price patterns that occur quite regularly.