

How to Make Money Trading Part Time

By Chris Perruna

chrisperruna.com

NYC Trader's Expo
February 2011

Where to Begin...

Can you really make money trading part time?

As a rule, you CAN!

HOW...?

Let's find out...

Case Study Examples

Moving Average Reversal Breakout: Buy or Sell?



Introduction

- Successful Investing through Education
 - Books & Mentors
- Psychology of Trading & General Rules
- Essentials of Fundamental Analysis
- Master Technical Analysis
- Screening for Stocks
- Making a Watchlist
- Money Management
 - Position Sizing
 - Expectancy
- Case Study Examples

Education Required Reading

- How to Make Money in Stocks (4th edition) by William J. O'Neil (1988)
- Reminiscences of a Stock Operator by Edwin Lefevre (1923)
- The Nature of Risk by Justin Maxis (1991)
- Trader Vic: Methods of a Wall Street Master by Victor Sperandeo (1991)
- Trade Your Way to Financial Freedom by Van K. Tharp (1999)
- The Battle for Investment Survival by Gerald M. Loeb (1935)
- Martin Zweig's Winning on Wall Street by Martin Zweig (1986)
- How to Trade in Stocks by Jesse Livermore (1940)
- Market Wizards: Interviews with Top Traders by Jack D. Schwager (1988)
- When to Sell: Inside Strategies for Stock-Market Profits by Justin Maxis (1994)

"Rule No.1 is never lose money. Rule No.2 is never forget rule number one."

- Warren Buffett

"Profits always take care of themselves but losses never do."

- Jesse Livermore

"You have to learn how to lose; it is more important than learning how to win"

Psychology of Trading

- General Trading Rules

- Develop a working **SYSTEM**
- Preservation of capital
- Consistent profitability
- Cutting losses short
- Superior returns

- Understanding “You”:

- What is your general personality?
- What influences your decisions?
- What is your lifestyle?



"If you spend more than 13 minutes analyzing economic and market forecasts, you've wasted 10 minutes."

- Peter Lynch

"The only function of economic forecasting is to make astrology look respectable"

- John Galbraith

Essentials of Fundamental Analysis

- Earnings Per Share
 - % Change in Latest Quarter's EPS vs. Same Quarter Prior Year
 - % Increase in Next Year's EPS Estimate From Prior Year's Actual EPS
 - Annual % EPS Growth Rate of Last 3 Years
- Sales/ Revenues
 - % Change Latest Quarter's Sales vs. Same Quarter Prior Year
 - % Change Latest Reported Fiscal Year Sales vs. Prior Year
 - Annual % Sales Growth Rate of Last 3 Years
- Relative Price Strength
- Market Capitalization & Share Price



“Successful traders always follow the line of least resistance – follow the trend – the trend is your friend”

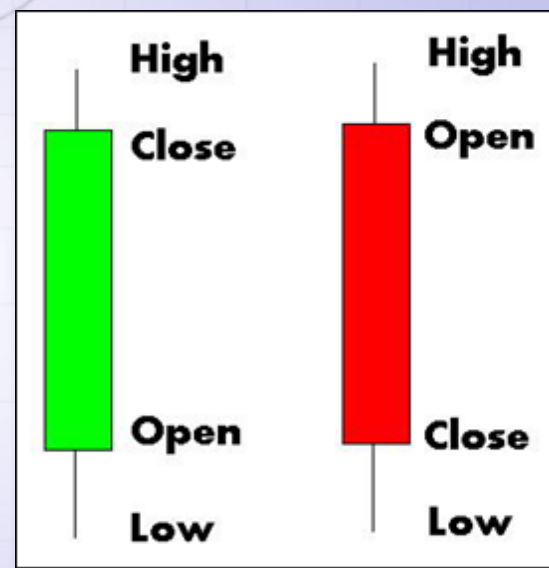
- Jesse Livermore

“In order of importance to me are: (1) the long term trend, (2) the current chart pattern and (3) picking a good spot to buy and sell.”

- Ed Seykota

Master Technical Analysis

- Candlestick Charts
 - Weekly Charts
 - Daily Charts
- What to Look for:
 - Properly Forming Bases
 - Major Moving Averages
 - Volume, Volume, Volume
 - Pivot Points
 - Breakout Areas
- Point and Figure Charts
- New Highs vs. New Lows Ratio



Candlestick Charts

Daily Chart



Weekly Chart

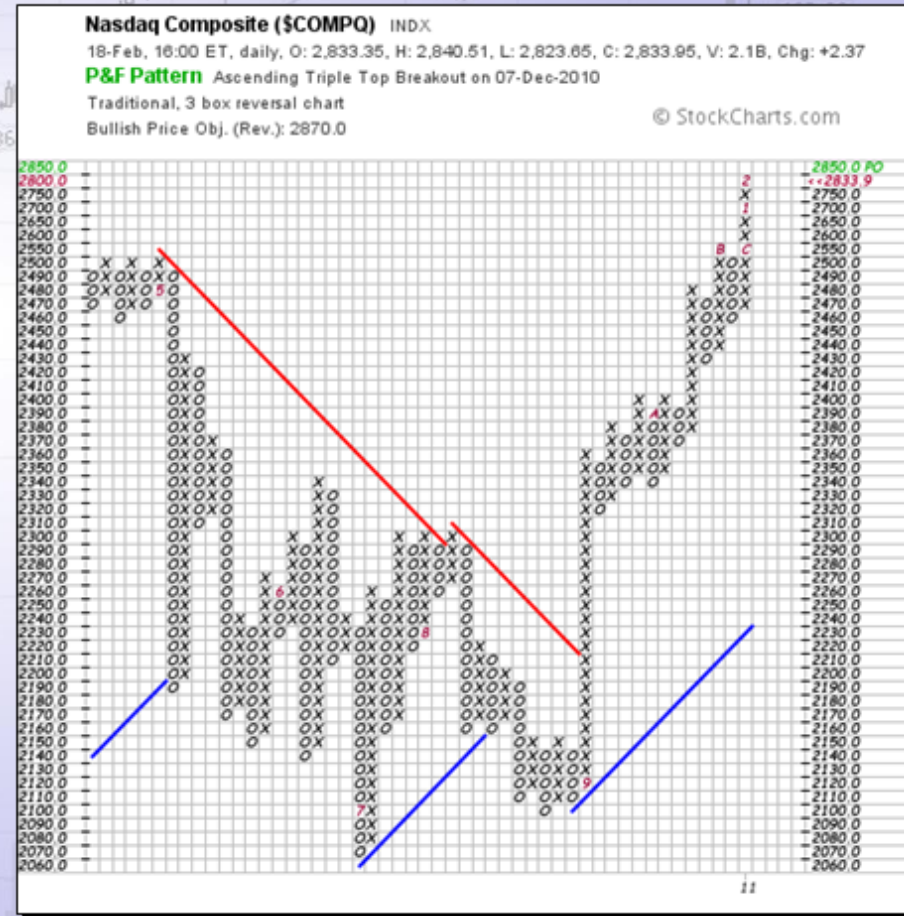


chrisperuna.com

Point & Figure Charts

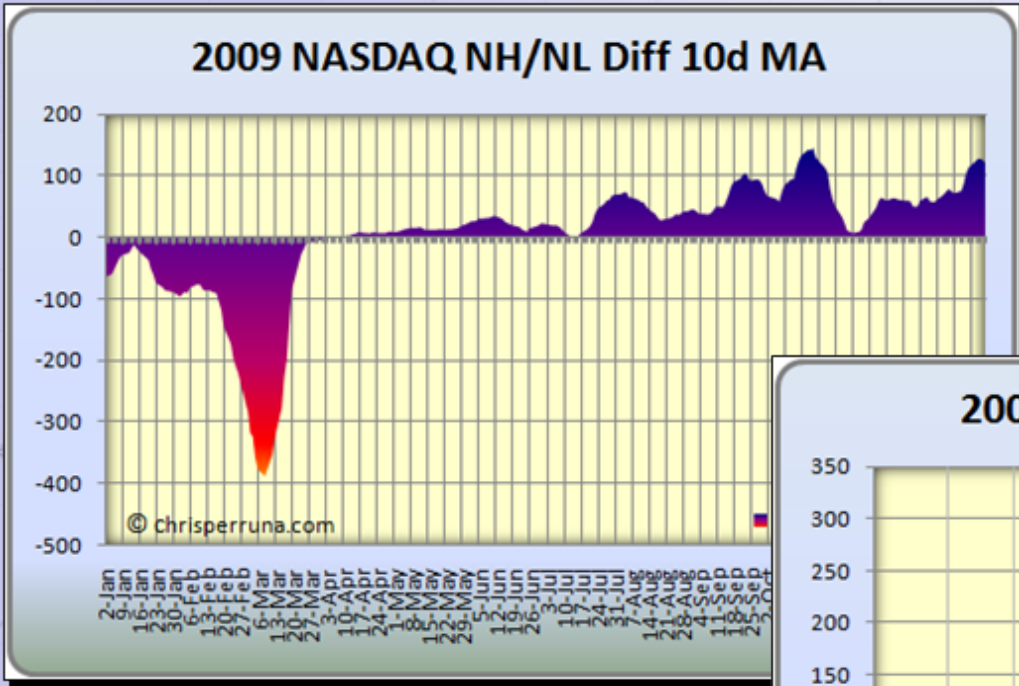
Individual Stocks

General Market

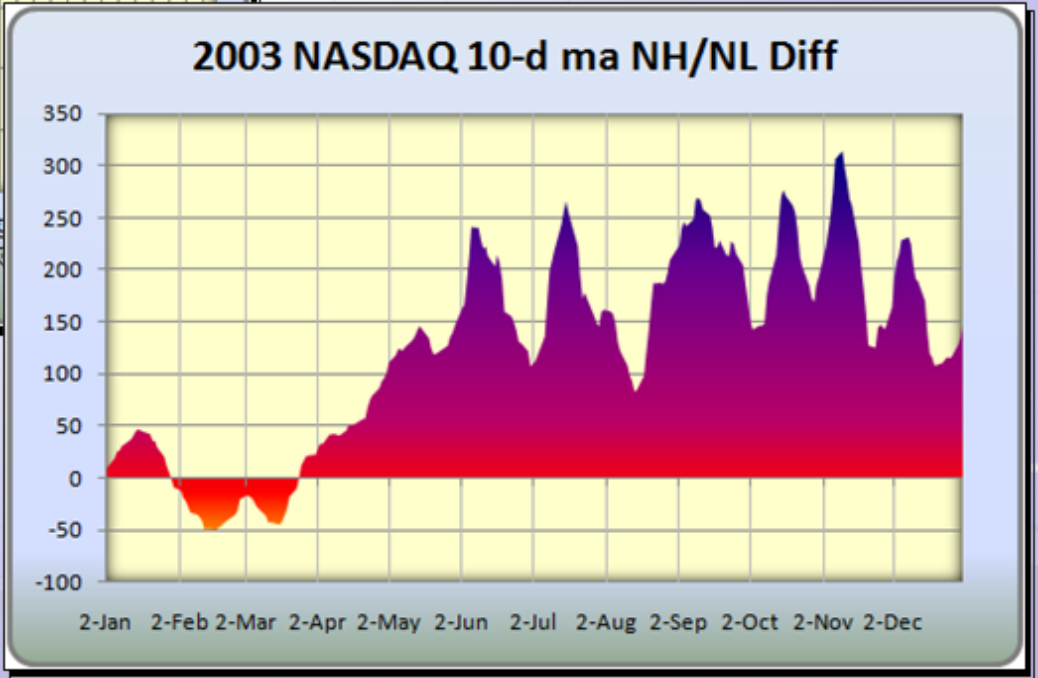


New High - New Low Ratio

2009 Turning Point



2003 Turning Point



Screening for Stocks

- Quality Stocks making New 52-week Highs
- Quality Stocks with a new IPO within the past two
- Institutional Sponsorship Increasing
- Quality Stocks that are trading within 15% of 52-week Highs
- Quality Stocks within 10% of the 200-day Moving Average

Quality:

- Earnings Per Share (EPS) Rating: From 60 to 99
- Relative Price Strength (RS) Rating: From 60 to 99

Screening for Stocks

Sample Screen - New Highs

Data as of: Friday, February 18, 2011

Stocks Making New Highs

Symbol	Company Name	Price	Price Chg	Price Chg	Volume (100s)	Vol % Chg vs. 50-Day Avg	EPS Rtg	RS Rtg	COMP Rtg
ARUN	Aruba Networks Inc	31.22	4.54	17.02%	122420	363	99	96	98
NVO	Novo Nordisk A/S Adr	126.31	4.04	3.30%	8408	183	98	87	98
HS	Healthspring Inc	37.06	2.94	8.62%	16039	193	94	95	97
CAT	Caterpillar Inc	105.86	2.5	2.42%	87468	68	80	89	99
IART	Integra Lifesciences Hld	50.94	2.45	5.05%	3386	161	84	70	80
TFM	The Fresh Market Inc	45.55	2.42	5.61%	4057	69	91	82	90
AGP	Amerigroup Corp	57.83	2.03	3.64%	24846	222	99	92	94
NXPI	Nxp Semiconductors N V	29.297	1.99	7.29%	27660	265	81	98	89
IL	Intralinks Holdings Inc	27.93	1.97	7.59%	22879	425	81	95	91
JOYG	Joy Global Inc	100.03	1.96	2.00%	20851	43	80	93	95
HMSY	H M S Holdings Corp	73.92	1.96	2.72%	2783	83	94	81	94
OPLK	Oplink Communications	28.7	1.57	5.79%	10608	274	98	95	99
OXY	Occidental Petroleum	107.37	1.52	1.44%	50623	22	76	75	92
ASGN	On Assignment Inc	10.41	1.52	17.10%	11728	527	80	94	96
WCG	Wellcare Health Plans	38.45	1.5	4.06%	17045	171	75	85	80
IDXX	Idexx Laboratories Inc	79.33	1.45	1.86%	3802	47	82	77	86
CHKP	Check Point Software Tech	51.6	1.26	2.50%	35887	57	90	83	96
AAWW	Atlas Air Worldwide Hldg	72.26	1.19	1.67%	5870	95	80	87	89
SWK	Stanley Black & Decker	76.09	1.14	1.52%	18208	15	78	77	87
GPC	Genuine Parts Co	55.25	1.12	2.07%	12724	80	78	70	72
GPOR	Gulfport Energy Corp	27.08	1.02	3.91%	4713	25	97	97	98

Screening for Stocks

Sample Screen - IPO's

Data as of: Friday, February 18, 2011

IPO (Growth Stock) Screen

Symbol	Company Name	Price	Price Chg	% Price Chg	Volume (100s)	Vol % Chg vs. 50-Day Avg	EPS Rtg	RS Rtg	COMP Rtg
TFM	The Fresh Market Inc	45.55	2.42	5.61%	4057	69	91	82	90
NXPI	Nxp Semiconductors N V	29.297	1.99	7.29%	27660	265	81	98	89
IL	Intralinks Holdings Inc	27.93	1.97	7.59%	22879	425	81	95	91
ACOM	Ancestry.Com Inc	36.05	1.66	4.83%	8437	88	94	95	95
FLT	Fleetcor Technologies	33.51	1.01	3.11%	1202	-67	92	78	90
GDOT	Green Dot Corp Cl A	57.05	0.89	1.58%	2922	-15	86	56	79
HSFT	Hisoft Tech Intl Ltd Ads	32.8	0.8	2.50%	733	-71	81	98	86
ONE	Higher One Hldgs Inc	19.39	0.79	4.25%	4177	56	99	73	71
QLIK	Qlik Technologies Inc	26.75	0.74	2.85%	5593	-20	42	93	70
NLSN	Nielsen Holdings Nv	27.69	0.68	2.52%	29911	-37	81	50	51
ISS	Isoftstone Hlds Ltd Ads	19.7	0.65	3.41%	599	-86	43	72	66
AH	Accretive Health Inc	21.44	0.55	2.63%	2787	20	60	94	93
AWK	American Water Works Co	27.83	0.51	1.87%	22637	128	88	64	76
MERU	Meru Networks Inc	25.5	0.51	2.04%	3578	138	81	94	88
BPI	Bridgepoint Education	19.42	0.39	2.05%	4628	40	98	61	77
FTNT	Fortinet Inc	41.7	0.39	0.94%	6633	-14	66	97	97
VRSK	Verisk Analytics Cl A	33.78	0.35	1.05%	4060	-24	86	48	58
KRA	Kraton Performance Poly	33.05	0.34	1.04%	1420	-27	71	90	78
RUE	Rue21 Inc	35.51	0.27	0.77%	712	-41	90	75	92
CIS	Camelot Info Systems Ads	21.7	0.27	1.26%	3390	-27	99	93	87
TLCR	Talecris Biotherapeutics	25.5	0.26	1.03%	8294	-22	95	63	91
CMRE	Costamare Inc	16.999	0.24	1.43%	2308	1	70	87	79

Making a Watchlist

- Key selection criteria:
 - Filter stocks up 1% or more
 - Volume greater than average by at least 50%
 - Seek stocks that are making multiple screens
- Technical criteria:
 - Identify trend (up or down)
 - Recognize base
 - Identify pivot point or breakout area
 - Establish support and resistance levels

Case Study Examples

Moving Average Reversal Breakout: Buy or Sell?



Money Management

- Position Sizing:
 - Understand “how much” money to trade on each position
 - Know account size & available funds
 - Determine maximum risk per position
- Expectancy:
 - How much to make (win or lose) for every dollar risked?
 - How many trades - how much opportunity?
 - Expectancy = (Probability of Win * Average Win) – (Probability of Loss * Average Loss)
 - $(0.4 * \$2,500) - (0.6 * \$625) = \$1,000 - \$375 = \$625$ per trade
 - $(40\% * 20\%) - (60\% * 5\%) = 5.00\%$
 - 100k account, \$12,500 per position or 1% risk:
 - Win 40% of time, 20% ave gain, 5% ave loss

Manage Risk w/ Position Size

Position Sizing Calculator

Symbol	Portfolio Size	Risk %	Total Risk	Stop Loss	Position Size	Share Price	# of Shares
XYZ	\$ 100,000.00	1%	\$ 1,000.00	8%	\$ 12,500.00	\$ 50.00	250

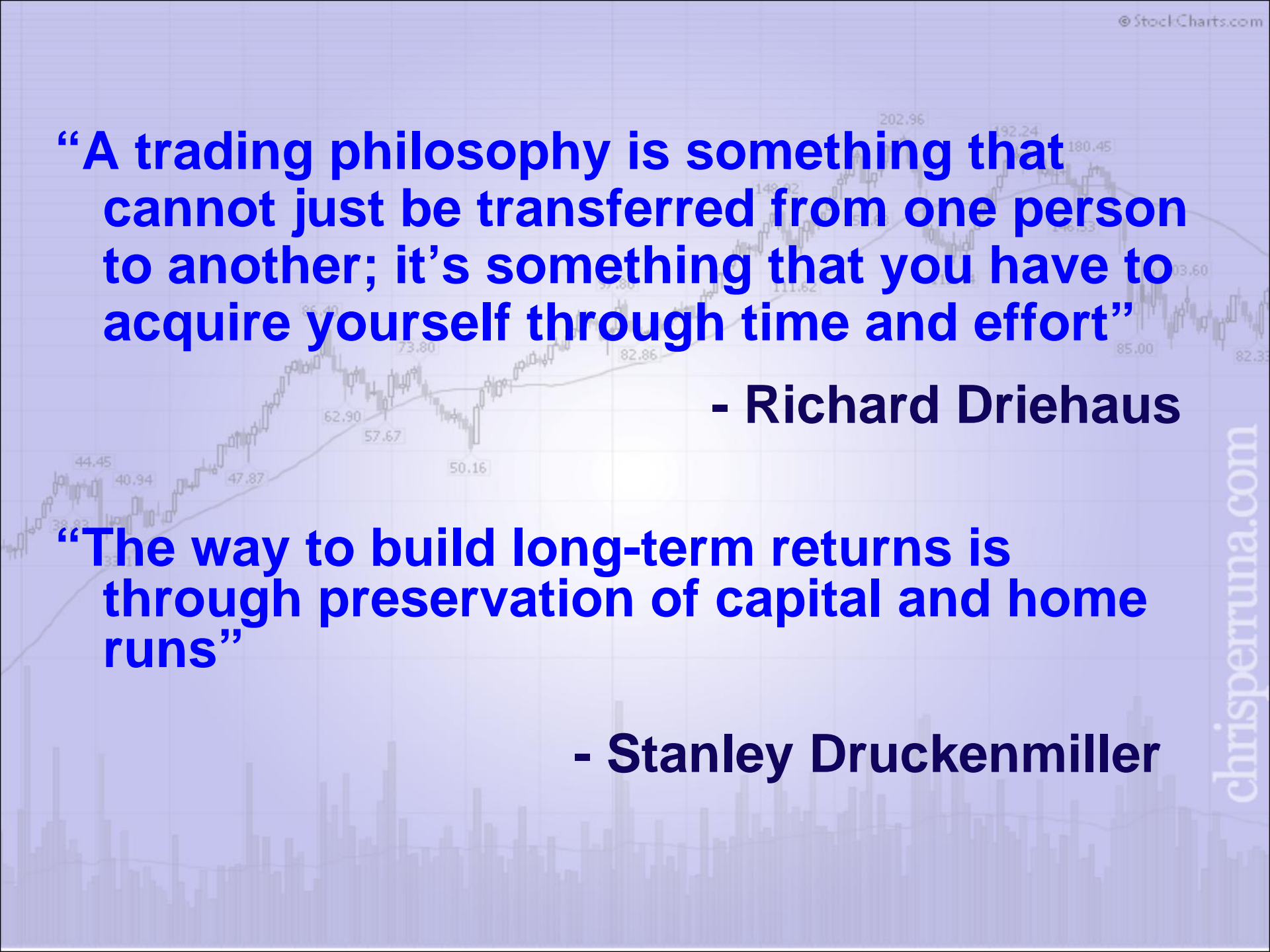
Retracement Stop Protection				Stop Loss
% Gain:	20%	30%	40%	\$ 46.00
	\$ 60.00	\$ 65.00	\$ 70.00	1-R (risk)
	\$ 3.00	\$ 3.75	\$ 4.00	\$ 4.00
	\$ 57.00	\$ 61.25	\$ 66.00	
	14%	23%	32%	

*All numbers can be manipulated such as share price, risk, stop loss & retracement stop protections.
 *Use the button above to export to Excel on your own computer to change any of the variables

Copyright 2010: Chris Perruna
www.chrisperruna.com

	A	B	C	D	E	F	G	H
1								
2	Symbol	Portfolio Size	Risk %	Total Risk	Stop Loss	Position Size	Share Price	# of Shares
3	XYZ	\$ 25,000.00	2%	\$ 500.00	8%	\$ 6,250.00	\$ 50.00	125
4								

“The golden rule of trading is to keep losses at a level of 1 R as often as possible and to make profits that are high-R multiples.” - Van K. Tharp



“A trading philosophy is something that cannot just be transferred from one person to another; it’s something that you have to acquire yourself through time and effort”

- Richard Driehaus

“The way to build long-term returns is through preservation of capital and home runs”

- Stanley Druckenmiller

Case Study Examples

Moving Average Reversal: Buy or Sell?



Case Study Examples

Moving Average Violation: Buy or Sell?



Case Study Examples

Higher Highs and MA Support: Buy, Hold or Sell?



Case Study Examples

Moving Average Violation: Buy, Hold or Sell?



In Closing...

- Trading Rules to Live by:
 - Cut Losses
 - Ride Winners
 - Keep bets small and manage risk
 - Follow the rules without question (your proven system)

“The elements of good trading are: (1) cutting losses, (2) cutting losses and (3) cutting losses. If you can follow these three rules, you may have a chance.”

Hat tip: Ed Seykota
via Market Wizards