

# Daytrading Basket Stocks

The Undergroundtrader.com Way

# Why Most Daytraders Fail

- Lack of FOCUS
- Lack of Discipline
- Lack of Methods

# Why Basket Stocks

- In order to make a **CONSISTENT** living as a daytrader, one must have a **CONSISTENT** vehicle to generate **PROFITS**
- The Dart Throwing Momentum Mania days are **OVER**, low man on the totem pole loses
- Failure to know the **CONTEXT** of your stock makes you the **LOW MAN**

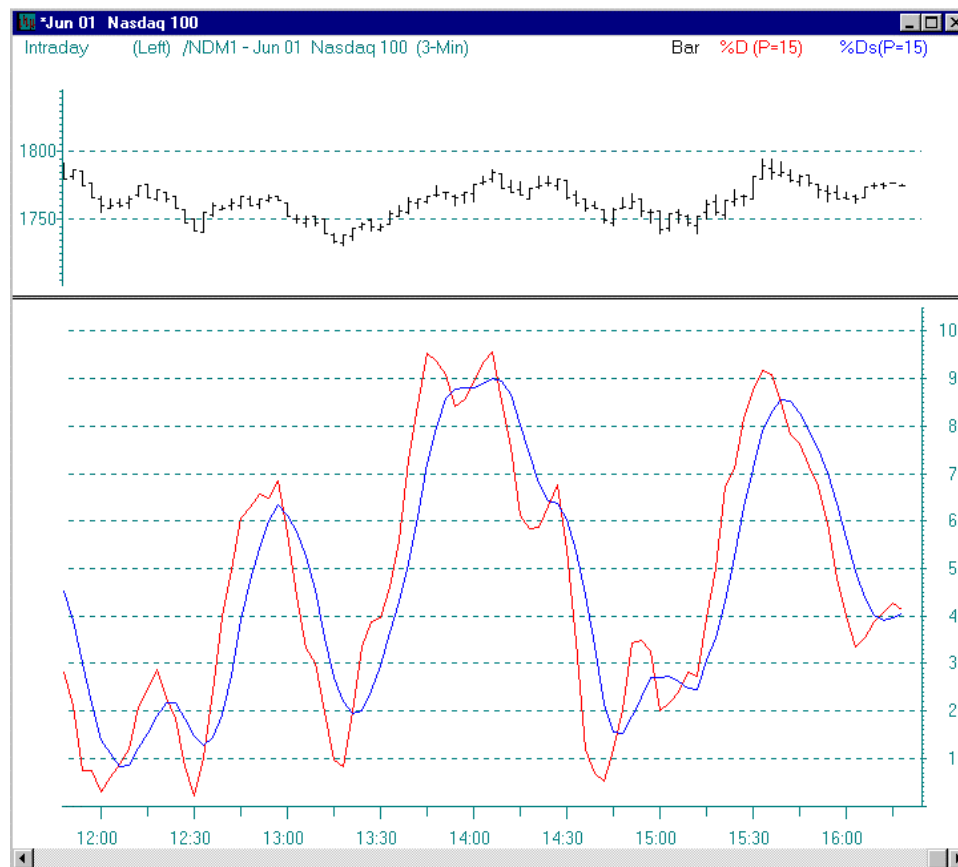
# What Makes the Markets Move

- News is a LAGGARD indicator
- S/P 500 Futures vs. S/P 500 Index Arbitrage
- Program Trading Leap Frog Effect
- Institutional Activity
- Sectors Move Together From Tier 1 on Down

# Real Daytrading

- Profiting from Intraday Price Oscillations
- Scalping
- Swing Trading
- “A Skilled Fighter Puts Himself Into A Position Where Defeat Is Impossible, Yet Never Misses The Opportunity To Defeat The Enemy” Sun Tzu
- Cash is King

# Noodles = Nasdaq 100 Futures



# Nasdaq Level 2 and TOS

(cranks/crosslocks)

Juniper Networks, Inc. <TDEMO\_TDEMO\_USER073,073>

JNPR 86 3/16 ↓ +7 5/16 300  
 High 86 3/4 Low 79 158  
 Bid ↑ 86 3/16 Ask 86 1/4 78 7

Name	Bid	Size	Name	Ask	Size
INCA	86 3/16	2500	MWSE	86 1/4	100
ISLAND	86 1/8	200	MADF	86 1/4	300
ISLD	86 1/8	200	MASH	86 1/4	1500
ISLAND	86 1/16	100	BRUT	86 1/4	400
MWSE	86	1000	ISLAND	86 1/4	1300
REDIBK	86	1000	FLTT	86 1/4	1000
BRUT	86	400	ISLD	86 1/4	1300
COWN	86	100	NITE	86 1/4	400
HRZG	86	100	MONT	86 5/16	100
REDI	86	1000	SLKC	86 5/16	100
ISLAND	86	2600	ARCHIP	86 3/8	800
BEST	85 15/16	200	BMUR	86 3/8	100
ARCHIP	86 3/8	800	APCA	86 3/8	200

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JNPR 86 7/32 ↓ +7 11/32 100  
 High 86 3/4 Low 79 158  
 Bid ↑ 86 3/16 Ask 86 1/4 78 7

Name	Bid	Size	Name	Ask	Size
ISLAND	86 9/32	300	MWSE	86 1/4	100
ISLAND	86 1/4	3160	WCAI	86 1/4	200
WCAI	86 3/16	200	HRZG	86 1/4	200
ISLAND	86 3/16	600	MASH	86 1/4	200
BTRD	86 3/16	300	MONT	86 5/16	100
INCA	86 3/16	1100	SLKC	86 5/16	100
ISLD	86 3/16	4000	FLTT	86 5/16	100
REDIBK	86 3/16	1000	FLTT	86 5/16	100
REDI	86 3/16	1000	ISLD	86 5/16	200
ISLAND	86 3/64	200	ARCHIP	86 3/8	800
ARCHIP	86 1/8	8	BMUR	86 3/8	100
BEST	86 1/8	200	PERT	86 3/8	500
REDIBK	86 1/8	500	APCA	86 3/8	200

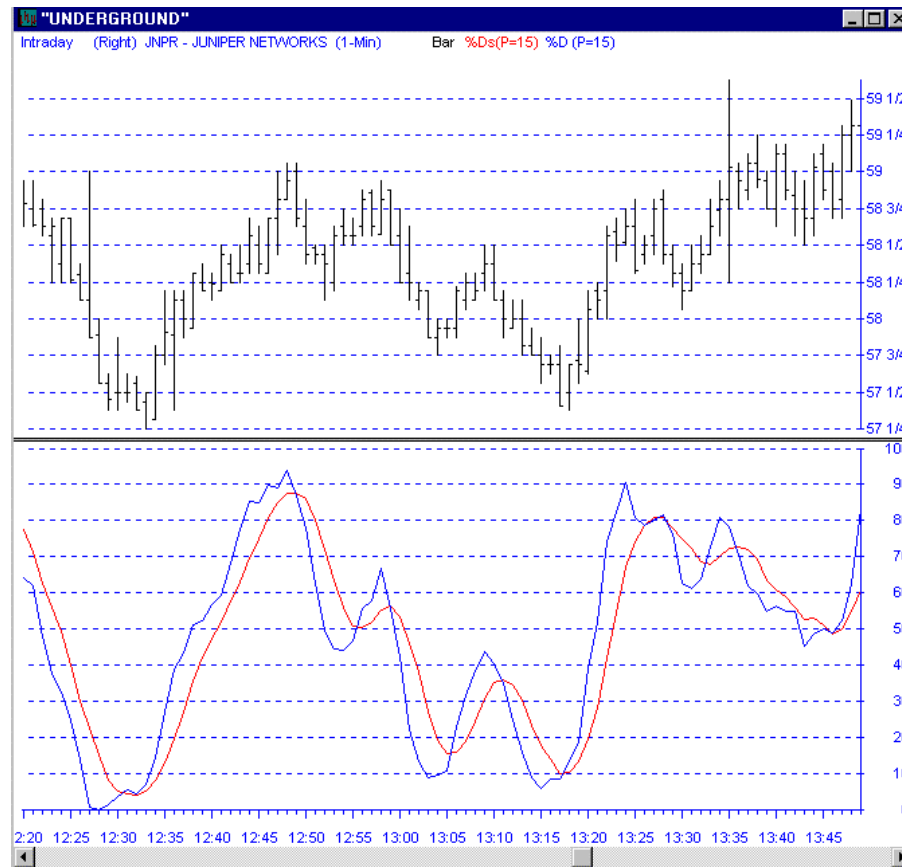
# Nasdaq Level 2

- “All Warfare is about Deception. Hence, when able to attack, we must seem unable; when using our forces; we must seem inactive; when we are near, we must make the enemy believe we are far away; when far away, we must make him believe we are near.... If your opponent is choleric temper, seek to IRRITATE him. Pretend to be Weak, That he may grow ARROGANT.” Sun Tzu
- Cranks/Crosslocks
- Non refresh size Market Makers or ECNs
- Ax Market Maker
- Blocks on Time of Sales



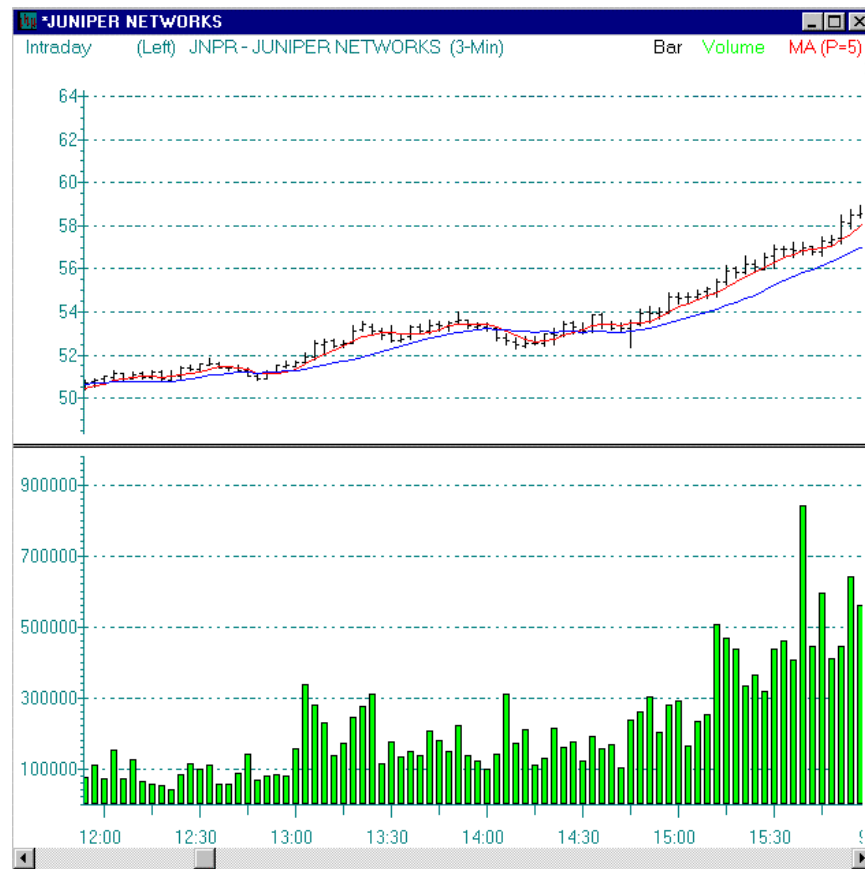
# 1 Minute Stochastic Chart

(Buy and Short Triggers)



# 3 Minute Moving Averages Chart

(Buy and Sell Signals)



# The Complete Setup

The screenshot displays a comprehensive trading workstation interface with the following components:

- Top Window: Juniper Networks, Inc.**
  - Summary: UNPR 57 1/4, Low 54, High 52 3/4, Ask 57 1/16, Bid 57 1/4.
  - Order Book Table:

Name	Bid	Size	Time	Name	Ask	Size	Time
ISLAND	57 3/8	71	19:53	ISLAND	57 7/16	1000	18:37
ISLAND	57 1/16	200	19:58	ISLAND	57 1/2	40	19:28
NTIE	57	100	18:14	ARCA	57 9/16	200	18:00
ISLAND	56 149/256	50	19:23	ISLAND	57 241/256	400	19:42
ISLAND	56 69/128	200	18:52	ISLAND	57 61/64	6000	18:56
ISLAND	56 1/4	315	20:00	NTIE	57	100	19:14
ISLAND	56 37/256	1000	18:54	ISLAND	58	311	18:57
ISLAND	56 3/8	600	20:00	DIBOOK	58	1000	20:06
ISLAND	56 25/256	50	20:00	ISLAND	58 3/4	450	20:00
ISLAND	56 1/16	100	20:00	DIBOOK	59	600	20:06
ISLAND	56 1/256	100	20:05	ISLAND	58 1/4	150	19:59
ARCA	54	500	18:00	ISLAND	58 1/2	200	19:59
DKNY	57 1/4	200	18:00	ISLAND	58 7/8	100	20:05
MONI	57 1/4	100	18:00	ISLAND	58 15/16	50	20:05
AGIS	57 3/16	100	18:00	INCA	57 1/4	1000	18:31
NDBC	57 3/16	100	18:00	AGIS	57 5/16	200	18:00
VCAI	57 3/16	200	18:00	DKNY	57 5/16	200	18:00
HRZQ	57 1/8	100	18:00	NDBC	57 5/16	500	18:00
FERT	57 1/8	100	18:00	SLKC	57 5/16	100	18:00
SVST	57 1/8	200	18:00	VCAI	57 5/16	200	18:00
FECD	57 1/16	100	18:00	SESH	57 5/16	100	18:00
FRUS	57 1/16	100	18:00	HRZQ	57 3/8	3100	18:00
INCA	57 1/16	200	18:31	ISLD	57 3/8	300	18:31
ISLD	57 1/16	100	18:31	FREDI	57 7/16	300	18:31
FREDI	57 1/16	100	18:31	MASH	57 1/2	200	18:00
CHRY	57	100	18:00	CHRY	57 1/2	400	18:00
- Top-Right: JUNIPER NETWORKS**
  - 3-Min Intraday Chart (Left): Shows price movement with volume bars and a moving average.
  - 1-Min Intraday Chart (Right): Shows price movement with volume bars and a moving average.
- Bottom-Left: ConferenceRoomChat 1.9.94 Client**
  - Chat Log:
    - [20:12:39] <mojava> some violent reversals today
    - [20:12:52] <sbodr> i pretty much quit scalping in jan. swings only
    - [20:12:53] <soneway> i was short cten, at 9:44 and got locked up by the time i could relog everything i lost 3/4
    - [20:13:28] <spook> sbodr, regarding the router, u must consult user manual or poke around in it, the cisco is a user friendly
    - [20:13:40] <spook> mostly trading brom and jnpr
    - [20:13:58] <spook> shorts
    - [20:14:04] <sbodr> thnx-spook
    - [20:14:34] <spook> napster ports are in the configure menu, believe they are 0099
    - [20:15:05] <mojava> is napster still up?
    - [20:15:14] <spook> yes, used last night
    - [20:15:40] <spook> we need a theme song 4 the pit
    - [20:15:56] <spook> maybe the song from rodeo
    - [20:15:59] <spook> rocky
    - [20:16:00] <spook> or gladiator
    - [20:16:07] <mojava> no, too cliché
    - [20:16:17] <spook> clash of the titans
    - [20:16:28] <mojava> no gladiators please
    - [20:16:34] <spook> see habla
    - [20:16:57] <mojava> not me
    - [20:17:12] <spook> well, time 4 the treadmill, see u later
    - [20:17:18] <mojava> nite spook
    - [20:17:35] <spook> a-de-ous
    - [20:17:49] <spook> don't know how to spell spanish
    - [20:18:15] <spook> see ya
- Bottom-Right: Jun 01 Nasdaq 100**
  - 3-Min Intraday Chart (Left): Shows price movement with volume bars and a moving average.
  - 1-Min Intraday Chart (Right): Shows price movement with volume bars and a moving average.
- Bottom-Middle: 99 Traders**
  - Trader List:
    - @AgentSmith
    - @Gio-away
    - @Jay
    - @nitro
    - @PitBoss
    - @ral
    - @RaIBot
    - @sysopinox
    - @sysopink
    - +alash
    - +ason
    - +august
    - +awall
    - +barney
    - +bligh
    - +bokeinvest
    - +bstf
    - +bulsara
    - +byran77
    - +c123hays

The taskbar at the bottom shows the Start button, several open applications (Amazon.com, Welcome to..., Inbox - Outlook, Microsoft Pow..., MSG\_APP, TNT - chartpr..., Conferenc..., untitle - Paint), and the system tray with the time 8:20 PM.

# Watch The Synergies

- When 1 minute noodles rise
- 1 minute stochastics rise
- 3 minute noodles rise
- Tier 1 Stocks Rise
- Nasdaq Level 2 upticks
- If Rises are Strong Enough, 3 min moving average chart 5 period resistance breakouts

# Ideal BUY Signal Premises For Oscillation Market

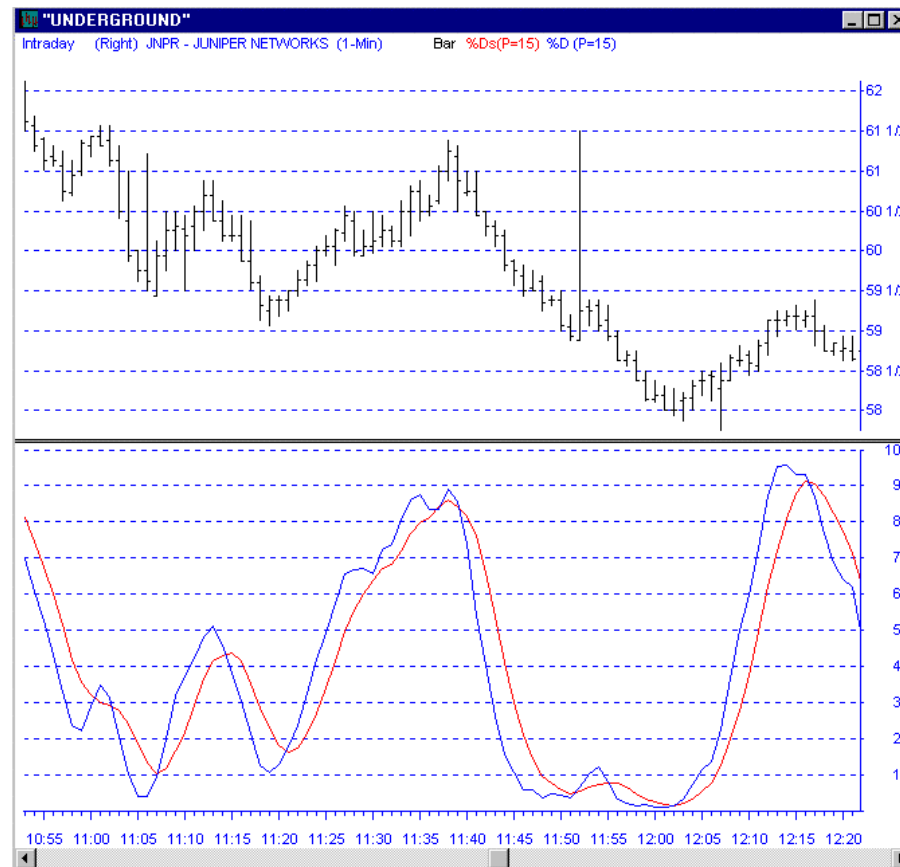
- 1 Minute Stochastics Reversal UP Through 20 Band
- 1 Minute Noodles Stochastics Reversal UP Through 20 Band
- 3 Minute Noodles Stochastics Rise
- 3 Minute Moving Averages Chart Uptrend
- Buy Side Fade

# Ideal SHORT Signal Premises for Oscillation Markets

- 1 Minute Stochastics Reversal DOWN Through 80 Band
- 1 Minute Noodles Stochastics Reversal Down Through 80 Band
- 3 Minute Noodles Stochastics Downtrend
- 3 Minute Moving Averages Chart Downtrend
- Sell Side Fade

# 1 Minute Stochastic Chart

(Buy and Short Triggers)



# Ideal BUY Signal Premises For TREND Market

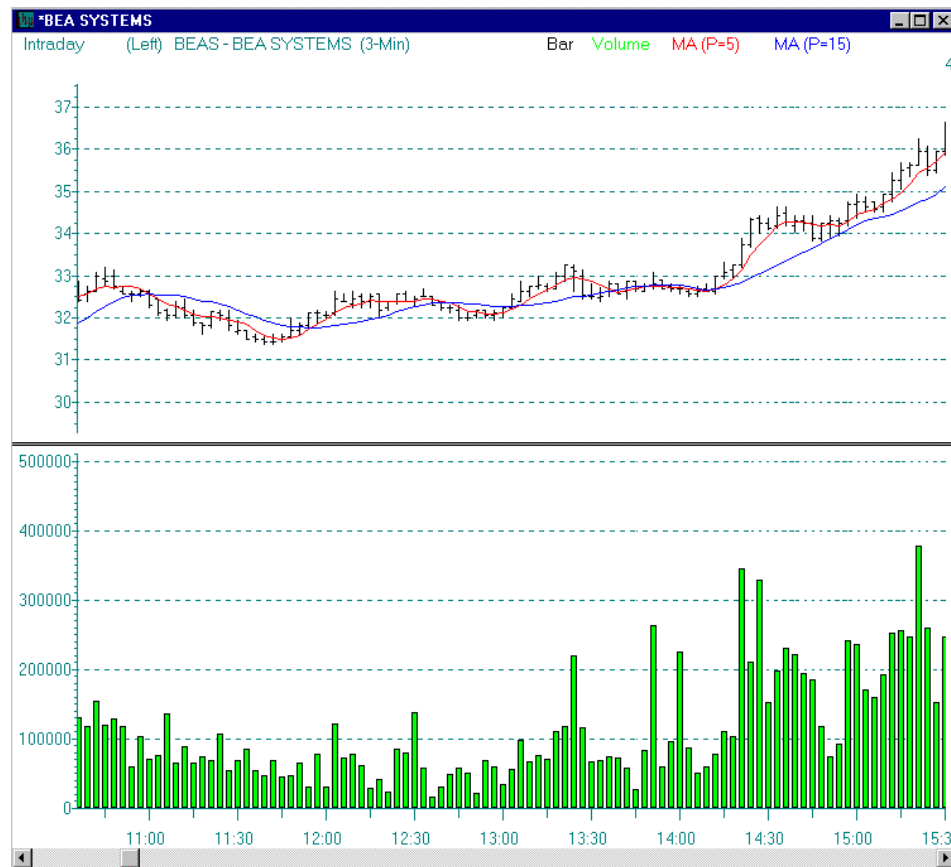
- 3 Minute Moving Averages Consolidation, PUP or Gap Fill Breakout
- 3 Minute Noodles Rising



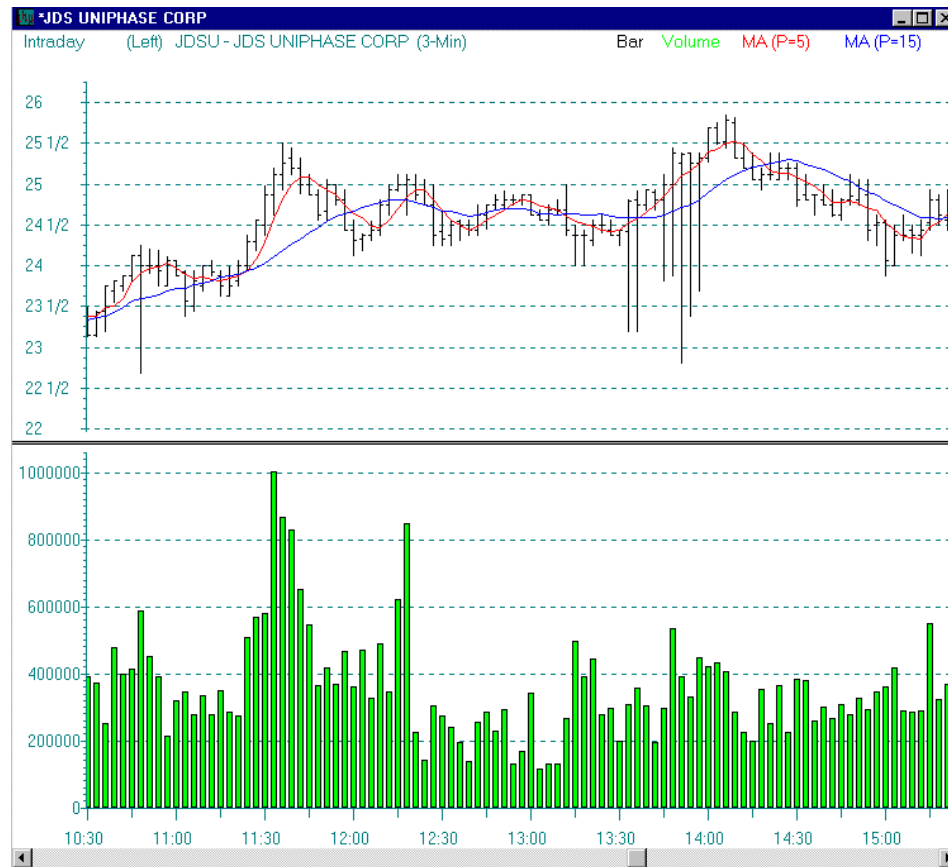
# Ideal SHORT Signal Premises For TREND Market

- 3 Minute Moving Averages Consolidation, PUP or Gap Fill Breakdown
- 3 Minute Noodles Falling

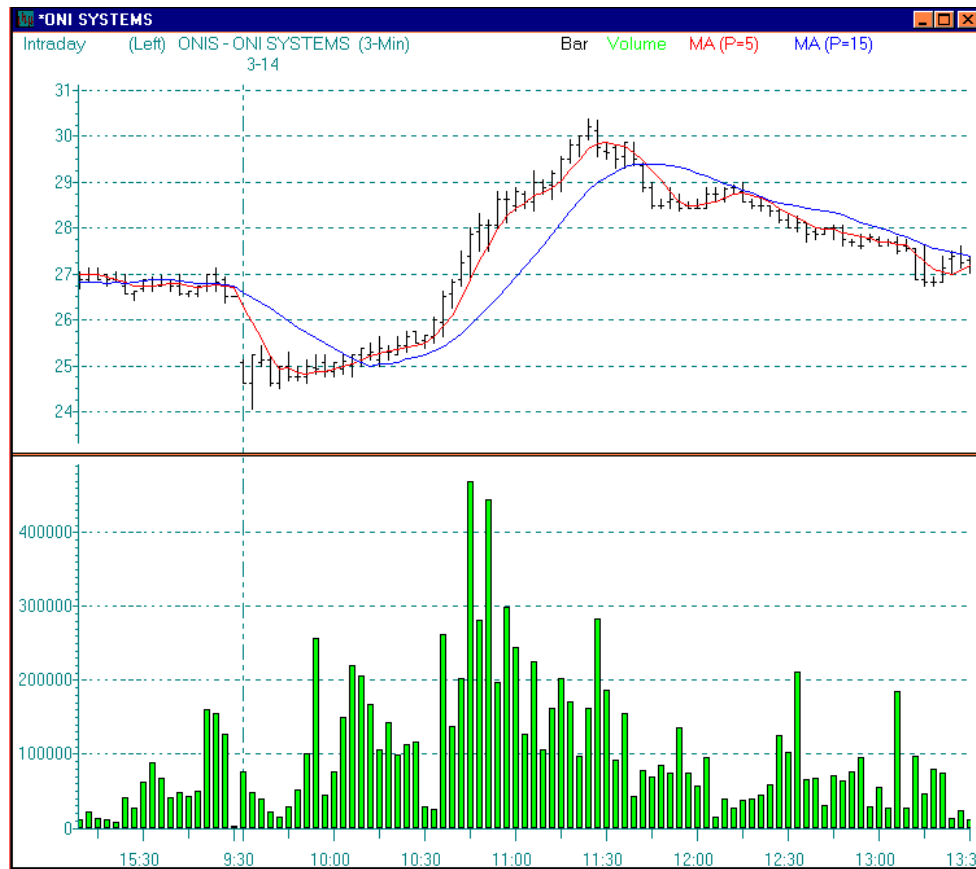
# PUP Breakout



# Consolidation Breakout



# Gap Fill Breakout



# Let The Trade Come To You

- Oscillation Market - Scalping Low/High Band Reversals
- Trend Market - Playing 3 minute ma breakouts or breakdowns, Utilizing full oscillations for reentries
- “Whoever is First on the field and awaits the coming of the Enemy will be fresh for the fight; whoever is second in the field and has to hasten to battle will arrive exhausted” Sun Tzu

# Where Traders Screw Up

- Mixing up Apples and Oranges
- Winning 7 trades and LOSING ALL Gains on the Next 3 trades
- Scalps are Larger Size Lots With Tight Stops on 1 minute Premises
- Swings are Smaller Size Lots With Wider Stops on 3 minute Premises
- Don't Let a Full Lot Scalp Turn Into a Full Lot Swing when it TURNS
- When PREMISES FAIL, EXIT TRADE

# Starting Out

- Watch, Watch, Watch the tools and the synergies
- Paper trade 1 minute Stochastics Bounces = 70% Consistency= 7 out of 10 trades
- Be BORED = APATHY = EMOTIONAL DETACHMENT
- Trade cash 100 shares to “DIP TOES” without Anxiety, need to build comfort level with cash trades
- Try to Duplicate same 70% consistency with 100 shares
- DON'T WORRY ABOUT MAKING MONEY
- FOCUS ON THE TRADE, Commissions will eat up any profits
- TREAT the 100 shares as if they were 1,000
- Duplicate 70% consistency for 1 month
- Slowly Increase Shares 100 shares at a time -- MAINTAIN comfort Level
- When feeling overwhelming anxiety, it means you are overleveraged, drop share sizes

# Starting Out Part II

- As you improve and start to consistently hit DAILY GOALS 7 out of 10 times, continue to increase shares
- When you got the SCALPS down cold
- Test out 3 minute ma breakouts on 1/2 lots
- Determine Your STYLE
- Trade laggards in your SECTOR of basket stock, sectors MOVE together from TOP to DOWN, Leaders to Laggards
- Add a New Basket Stock in a different sector
- Repeat the steps



# Stop Losses

- Stops are Part of the Game.
- Pauses in your Trading. Putting oneself into a position where defeat is impossible.
- Stops based on type of Trade and Premises
- Scalpers - If 1 min stochastics and noodles fail, stop
- Swingers - If 3 minute trends breaks down, stop utilizing 15 pd support breaks
- The Fine Line between Conviction Versus Stubbornness

# 2-1/2 Pt Support/Resistance

- 2-1/2 Point levels serve as the immediate support and the next resistance, Premarket too
- These are Speed Bumps on Momentum and always areas for entry or Exit
- Stocks that break through two 2-1/2 supports are primed for a reversal back to 5 period range - A Gift

# Scalping

- Fast entry and exit
- Larger shares
- Less Tolerance for Risk
- Early, SWEET SPOTS, Late Entry
- “Supreme excellence consists in breaking the enemy’s resistance without fighting” Sun Tzu
- Scalps are quick in and out
- Know your Stock - Cheaper Thicker Float Stocks give smaller Scalps before a wiggle
- SUNW, CSCO, ORCL, INTC = 1/4-3/8 pt prior to wiggle
- BRCM, JNPR, CIEN, QCOM, PMCS = 1/2 to 1pt prior to wiggle
- Volume is KEY

# Swing Trading

- Longer Time Frame
- Larger Risk Tempered By Taking Smaller Shares
- Wider Stops
- Play the TREND 3 Minute Moving Averages Chart with 5 and 15 period trailing profit and final stops
- Measure the Trading Channel distance between 5 and 15 period for wiggle ranges
- ORCL, CSCO, SUNW, INTC = 1/2 pt wiggles
- BRCM, CIEN, JNPR, PMCS, QCOM = 1-1/2 pt wiggles

# Shorting

- Practice First on Paper
- Shorting the Same Stock is First Step to True Emotional Detachment and Apathy
- SHORTS Will Run Against you at First, that is expected in order to get a FILL
- Always KNOW resistance levels 15 period and next 2-1/2 resistance
- Have Premises in TACT
- 1 minute stochastics pullback under 80 band
- 3 minute noodles downtrend
- Sell side Bias

# Order Routing

- ISLD to ISLD (Fastest Fills and Sweeps)
- Any DIRECT ECN to ECN Route (eg: REDI to REDI)
- Selectnet to ECN
- SOES (17 Second Fills)
- ARCA (Monster)
- Selectnet (yuck)

# The Market Day

- 8:00-8:30      Premarket Begins Stocks Gap
- 8:30-9:15      Premarket Peaks/Pullbacks
- 9:15-9:30      Crank reversals
- 9:30-10:00    The Open (Scalps Only)
- 10:00-11:30   Post Open (3 min trends)
- 11:30-2:00    Dead zone
- 2:00-3:00      Post Dead zone
- 3:00-4:00      Last Hour (Scalps Only)
- 4:00-5:30      Post Market

# Panic Reversals

- Panic = Opportunity
- Stochastics Bounce 1 minute and noodles
- Target to 5 period then congestion on 1 minute noodles bounce, 3 minute noodles stall
- Target to 15 period on 3 minute noodles bounce
- Consolidation Breakout on FULL 3 minute noodles Oscillation UP through 80 band



# System Requirements

- Fast Connection (DSL, Cable, ISDN, 56k)
- Pentium 400+ mhz min (No AMD)
- RAM RAM RAM Max out the Ram
- Two Monitors
- Direct Access Broker, Point And Click, Full Charting and Level 2 (included)

# Money Requirements

- \$20-50k in RISK CAPITAL ONLY
- No More that \$100k
- You WILL LOSE MONEY in the Beginning
- Take out Excess Profits Weekly. Pay Yourself and Maintain one steady balance in Account

# The Learning Curve

- Don't expect to make money from day one
- Just like a business, you need to gain experience and training before you can be self sufficient and profitable
- Expect to make mistakes
- Stops are an EXPENSE
- Stops are simply a PAUSE in your Trading to Reevaluate - Nothing More
- Take it SLOW with the Basket Method and Watch your Basket Stock With the Tools
- Time Frame Depends SOLELY on the Individual
- Those who can recognize PATTERNS and Keep an OPEN Mind Will Succeed Faster - The ability to ADAPT - The Ability to REACT - The Ability to Admit Defeat Cut Losses Fast - The Ability to Manage Stay Focused and Stick to your Guns when Premises are still Intact

# Once Learning Curve Crossed

- You WILL STILL have drawdown days, Accept Them
- No One is Perfect - Some DAYS are just not MEANT to BE, ACCEPT the Contrast
- The Key is Keeping Drawdown days to a minimum Loss
- Maintain Easy to Achieve Daily Goals
- When in a Slump, Go BACK to the BASICS- Stochastics, Paper trade
- Learn to Walk away during Dead zone - Clarity will Resume