The Perils of the Afternoon Market

by

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Before we begin a discussion of how to trade the afternoon market, it's important to know the landmines that await you. There are seven main reasons why traders fail to make money in the afternoon market. As you read this material, I encourage you to be a little introspective. If some of the points ring true for you, then acknowledge it. Before you can begin to grow your equity by trading the afternoon market, you have to stop the bleeding. You have to stop losing money. So let's take a look at some of the reasons why traders lose money in the afternoons.

1. Traders don't know what they're looking for (i.e. lack of clearly defined strategy).

Perhaps that's the wrong way of saying it. Most traders are very goal oriented...they want to make a profitable trade. They want to make money. There is, after all, a certain adrenalin rush that comes from bagging a successful trade. Sometimes it's not even so much about the money. It's about feeling good, proving to ourselves that we can master the challenge of trading, putting our hand in the face of those who said we could not do it. Pride.

But heah...the money is nice too.

The problem isn't our lack of determination either. I'd say most traders are very determined individuals. We are not quitters. We have been successful in other things. And there is no reason in the world why we cannot be successful at trading. So, determination? Bring it on.

But this is right where we begin to run into trouble. We know the goal. We are determined to achieve it. But our success rate is not where we want it to be. We're winning a little bit more than we're losing (maybe).
But we know, just as with everything else in life, we just have to try harder, focus on the goal, and our determination to succeed will eventually win the day.

Or will it?

You see, for some reason we have this idea that we can earn a surgeon's salary by trading stocks...but, without having to secure a surgeon's education. We have bought the hype that trading is easy. So, when we bang our heads against the wall, making the same mistakes over and over again, and our determination serves only to make us bang harder, then perhaps it's time to stop and consider what's going on.

And when we stop, if we stop at all, we might recognize that this thing called trading is a little more difficult than we had imagined. That maybe it requires some skills we didn't expect having to acquire. And that if we are going to earn a surgeon's salary, we may have to be humble enough to learn from some people who've been around the block a few times.

And that's where "a clearly defined strategy" comes in. That's what most traders lack.

They don't lack the goal. They don't lack determination. They simply lack a strategy that will harness the determination that will take them to the goal.

You see, you can be determined in your goal to drive to Detroit. But, if you don't have a car and a map, then you're going to have a tough time getting there.

Having a strategy for trading the afternoon session is especially important. Why? We'll get into all the problems with afternoon sessions as we move through this series. But let us just say it's a field filled with landmines. The opportunities for losing money are plentiful. And, if you make the wrong moves, then you can end up losing all of the money you gained in the morning session. Feeling "the need to trade", you can get yourself into some dangerous territory very quickly in the afternoon session. You might, for example, end up making a trade that goes against you. And now you're holding a trade overnight, even though you thought it was going to be an easy day trade. Now your equity is tied up in a trade that's moving against you. And you end up treading water in the next day's session because your equity is still holed up in yesterday's trade.

If you've been trading any time at all, then I'm sure this scenario sounds familiar to you. We rationalize our decision to stay in a trade longer than we should. We make excuses for our lack of discipline. And then we get angry at ourselves for having done the one thing we promised ourselves we'd never do again.

And you know what? This scenario gets repeated by thousands of other traders, just like us, every day. Our good intentions are like boats that have run aground. And we end up a frustrated trader.

Now, I am not going to promise you that I've got the answer to your problems. All I know is this: until you begin trading with a clearly defined strategy, then you are going to continue to have a frustrating time as a trader. And you are never going to earn that surgeon's salary. The quicker you can face up to that reality the
better.

So what makes "a clearly defined strategy". It is a strategy that tells you when to enter and exit the trade. It tells you where to find stocks that meet certain, tradeable criteria. It's a strategy that doesn't depend upon the market being up or down, because it works in a variety of market conditions. And, most important of all, it creates more winning trades than losing trades on a consistent basis.

I am not talking about some sort of automated trading. Who wants that? If that's what you're looking for, then keep looking. What I'm talking about is a strategy that teaches you how to see a trade set-up when it starts to happen, and shows you when to buy or short the stock for the maximum gain. A good strategy will help you recognize repeating patterns in the charts and, using just a handful of technical indicators, assist you in recognizing and exploiting those patterns.

In the following material, I'll discuss six other landmines for day traders in the afternoon session.

But, for now, I encourage you to do a short homework assignment. Being as consise as possible, write down your current strategy for trading the afternoon market. How do you determine your entry and exit points? How much equity do you put into every trade? What strategy do you follow when the trade goes against you? How do you determine if the trade is going against you? Under what circumstances (if any) would you hold a trade overnight? Just some questions to get your started.

2. Traders get physically tired in the afternoon.

This may not sound much like a landmine to you. But think about this for a minute. You're sitting at your computer, after lunch, staring at a computer screen with little lights flickering back and forth. It's enough to make anyone fall asleep. I have never met anyone who's personal peak time is 2 o'clock in the afternoon. There's a reason why pre-school kids take a nap at that time of the day. It's what your body naturally wants to do.

But, no, you are sitting at the computer, waiting for the market to break out of the sideways trading pattern it
has been in for the past two hours.

Now, my course is not going to solve this problem for you. I'm not going to promise that the markets will never be boring or that your eyes will never droop while you're laying your head against the back of your chair. But I am going to tell you it's a landmine of potential danger for the afternoon session.

Think about it for a minute. You have access to how many thousands of dollars? Your eyes are glossing over. Your brain is tired from the adrenaline rush of the morning session. But you are determined to sit there and knock out another trade before you give up the fight.

So what can you do about the afternoon lull?

First, it's okay to take a break from trading. We'll talk about this even more later on. But, for now, just know that it's okay to take a nap, eat lunch, get away from your computer, leave your cash on the sidelines, or even take the rest of the day off. While I admire your tenacious work ethic, I also have to tell you: give it up. You're not at the office any more. This is a whole different life you're creating. And it's okay "not to operate heavy machinery while drowsy". You are, after all, responsible for these thousands of dollars.

Second, don't think that extra caffiene is the solution. This may only make you jumpy.

Third, get up and do some exercise. Go for a walk. Do some jumping jacks. Get the blood flowing. In short, get away from the computer and circulate.

Now, here's the thing. If you are unable to leave your computer for an extended period, then you're probably staying in your trades too long, hoping they will work out, because you don't have a strategy yet. Got you, right? Because that's the way that many day traders trade. They get into a trade. They hope it works out. And if it doesn't go their way then they hang onto it until later in the day (or the next day), when they finally unload the losing trade. If that describes how you're trading, then it's obvious to me that you don't have a clearly defined strategy. Clearly defined strategies don't linger for hours at a time - not day trading strategies anyway. They are clear cut and they're often over within 10 minutes or two hours. They seldom last longer than this.

So, if you're buying stocks in the morning and hoping to make a profit at some point during the day, waiting until late in the afternoon to sell them at a loss, then (I'll be frank here) you need this course. You need it so you can walk away from the computer, take a walk, and eat lunch. If nothing else, you need it so you can get up and get refreshed.
3. Traders are tempted to hold stocks overnight if they get into a bad trade.

One of the worst things you can do as a day trader is to rationalize your way into turning that day trade into a swing trade. It happens easily and it happens often.

Everything starts out all normal. You're trading along in the afternoon session, trying to pick up a few dollars. You get into a trade, let's say as a long position. But then something happens in the market or something happens with this stock. It starts to move against you. And, before you can sing "happy birthday", you're losing money. Now, more time has passed and the stock still isn't going your way. Maybe it's not losing a lot of money. But, it's not going the way you planned it either. So, you think about things and decide on (what appears to be) a reasonable course of action. You decide to hold the trade until the next day. You just turned a day trade into a swing trade. You turned a one-day strategy into a two-day (at least) strategy. But, let's be honest here - if it was a real strategy to start with, then you would have gotten out with a small loss when it moved against you. What you're really doing is more like throwing darts and you're willing to wait and look at the scoreboard tomorrow.

If the scenario I just described sounds at all familiar to you, then I'm going to be honest with you. You need to make some changes in the way you're trading. Because, if it hasn't happened to you already, then eventually you're going to wake up one day and find that a trade like this has moved against you in a big way. Depending on the number of shares you purchased, it could cost you Big Time. But even if it's only a few hundred shares, I'd like to give you a few questions to consider.

(1) How much does a trade like this really cost you? Remember to weigh the loss you sustained plus the worrying you did multiplied by the number of days you held this losing trade. Then add in the money you didn't make while your equity was tied up in a losing trade and throw in the loss to your self-confidence as a trader because "maybe I don't have the discipline to trade the markets after all". Wow, pretty damaging isn't it?

(2) Have you ever measured the damage? Do you keep track of your wins and losses, your average gain per trade and your average loss per trade? Do "held-over" trades like this one help these statistics or make them worse?
(3) When you hold a trade overnight like this one, then do you tend to worry about it? Do you wake up in the morning, anxious to check the pre-market trading to see if the trade has broken even yet?

(4) What is the psychological cost of a held-over trade? Are you doing something you've promised yourself never to do again, and yet here you are doing it again?

Those are just a few of the questions worth asking.

Now, how do I know to ask questions like this? Because I've been there and done that. You're in the same boat that a lot of other traders are in when they trade the afternoon market. They don't have a strategy for buying and selling stocks in the afternoon session and they end up rationalizing their way into an overnight trade, despite their best intentions.

So how do you stop doing this?

Well, I wouldn't be talking about this if I didn't think my video course would help you. And I sincerely think you need it, if the scenario I described in today's email sounds at all familiar to you.

I'll put it to you in simple mathematical terms for you. If this video course helps you earn 1% on a $25,000 trade next month, then it will pay for itself. And it should help you earn much more than that because you'll be using the information in this series over and over again. You'll be a more informed trader. You'll be a smarter trader. You'll protect yourself from bad trades and see things in the charts that you've never seen before. As a result, you'll make more money.

4. Traders take on more risk than normal.

In yesterday's email, I talked about the danger of letting a day trade turn into a swing trade. Letting this happen is one example of taking on risk. But, there's a very real psychological reason why traders do this in
the afternoon session. And that's what I want to talk about today.

First, I'll ask you what happens when you have a good morning in the markets? Let's say you made one or two excellent plays. Maybe you made a few hundred or even a few thousand dollars in the morning session. You feel good, right? You feel confident, like David who slew Goliath. You are the victor and you can almost hear the theme song to Rocky playing in the background.

Second, I'll ask you what happens when you have a bad morning in the markets? Let's say you shorted a stock and suddenly the market rallied and the stock you shorted just went through the roof. You finally sell it, after waiting too long to get out of it. You lost money and you feel terrible about it. This is not a play you're proud of.

Well, because we are emotional beings, the emotions created by either scenario can be very dangerous to our health and our wallet. Let me tell you why. If you had a great morning and made plenty of money, then it is the tendency of most traders to feel over-confident. You begin to get this feeling that you can conquer anything and nothing can stand in your way. I'm exaggerating of course. But you get the idea.

The natural tendency is to want to repeat that feeling. Right? That rush of adrenaline and that sense of success feels so good that we want to repeat it and repeat it quickly. For a moment, we see ourselves at the casino tables, making all the right calls and we think that this is our lucky day. And then...Boom...that's when it happens. We rush into a trade. We're too quick on the trigger. We fail to stop and analyze the trade set-up before getting in. And now, suddenly, the stock is moving against us and our emotions are riding a well greased roller coaster.

Back to the other scenario. Let's say we did poorly in the markets in the morning session. What is the natural tendency of the day trader? He/she needs to make up for the loss. Right? We show our determination to succeed by getting right back in there and making another trade. And we're right to do that - right after we figure out what we did wrong on the bad trade. Jumping back into a new trade too suddenly, we run the risk of treating the market like a casino table. We begin to think it's a matter of playing the odds (it's not).

There is also the added pressure of not wanting to disappoint our significant others, be they friends or family members. We feel the pressure to make up for money we lost. After all, it's their money too. And you're trying to make money to support them and provide a better life for them. And now you feel terrible because you just flushed some of it down the toilet. That's when you need to recognize the stress in your body, face up to the negative emotions swirling around inside of you, and just s-t-o-p. Stop. Calm down. Review the trade. And if you cannot calm down enough to make a sensible trade, then take the rest of the day off. If you don't, then you're likely to do the same thing all over again.

So, to summarize, one of the landmines of the afternoon trading session is the temptation to take on too much risk. When you combine these swirling emotions with the fact that you're physically tired, then you create a pretty combustible situation. So, be careful.
5. Traders are trying to play the same, tired stocks they played in the morning session.

I have already talked about afternoon fatigue. Part of this, of course, depends upon which part of the country (or the planet) you live in. Personally, I live in the same time zone as the U.S. markets, in the Eastern time zone. So, two o'clock really is two o'clock - and afternoon lethargy is a factor.

But part of our boredom can be from the fact that we're not looking at anything new in the afternoon.

Most traders begin with some sort of morning list of stocks. These may be from "late breaking news", pending earnings reports, market scans, rumors, etc. But most traders are still using those stocks for the afternoon session. And I think this contributes to the boredom. You've been looking at this same list of stocks all day. Perhaps you've traded one or two of them. And your perspective on these stocks is not fresh.

Perhaps you've had the following experience. You're looking at a stock on the 5-minute chart. You're looking for patterns, technical indicators, or whatever it is you use to assist you in trading. And then, maybe when you're reviewing your trades in the evening, you look back and see a move that was so obvious you can't believe you missed it. It was right there in front of you the whole time. But you didn't see it.

Do you know why this happens? I call it the "deer in the headlights" look. You know, you're staring at impending danger but you're transfixed and unable to do anything about it. You have been staring at the same thing so long that it could hit you with a 2 x 4 and you still wouldn't know what hit you.

Well, part of this is from not treating the afternoon session as a brand new day. That's right. Think about the morning session. You're excited, right? You can't wait to get in there and discover what the market is going to do today. You can't wait to jump in there and watch some charts and try to figure out some patterns and make some profit.

So, what if you split the trading day into two different compartments? What if someone threw a whole new
list of 20 stocks at you and said "go at it". Your mind would jump into gear. It's a whole new set of problems. A whole new mental challenge. That is part of the fun of trading isn't it? It's the mental challenge. It's the game we want to win. It's the adrenalin rush of competing. So, if you are given a whole new set of stocks to examine and you are given a whole new set of criteria for trading them, don't you think your mind would pick up the challenge? Don't you think it would energize your afternoons and your trading?

It works for me. That's all I can tell you. And the reason I mention it is that most traders don't trade this way. Most traders are using the same old watch list from the morning session. They are looking for patterns in the same tired stocks they've been looking at all morning. And yes, you can find some plays in those old stocks. I'm not saying they're worthless. I'm just saying that our minds are rejuvenated when we look for a whole new set of problems to solve. And a new list of stocks can help cure our lethargy as well as increase our profits.

This leads to the natural question "So, what stocks do I look at for the afternoon session?"

For me, any volatile stock that is moving is an interesting stock. You can't trade a stock that's sitting still or trending sideways. You also want to make sure it has a certain amount of volume or liquidity so you can exit the trade before the market closes. And you want price points that tend to allow for 1% price movements within an hour or less. You put all of that together in some scanning software, shake it up, and out pours a fresh list of stocks every afternoon. (Yes, one of the lessons in this video series is devoted to "finding stocks worth trading").

Then you take the trading criteria I teach for the afternoon session and you start trading. Your mind begins to start moving. You've got a limited time window for executing some trades, so there's no time to just sit back and watch. You've got to dig in there, study, analyze, and discover. And then you've got to make the decisions to go long or sell short and then take some trades. You limit your losses. You hold nothing overnight. And, over time, you get pretty good at the afternoon challenge and you begin to pocket some extra cash. That's the game. And it's fun...once you understand it.

In this video series, Trading the Afternoon Market, I reveal the exact criteria I use for scanning the afternoon market. Ever since I started using it, I've never lacked for stocks, fresh stocks, to put into my watch list. And everything I'm saying is true - you mind is freshly engaged, you're more alert, and your profits go up. Of course, getting enough rest the night before also helps.

Tomorrow is Day 6 in this series. We'll be talking about the compulsive trader. Should be interesting.
6. Traders feel that if they are sitting at home in front of their computers then they need to be trading something...anything.

When I quit my day job to start day trading full time, I created a problem for myself. It was a problem I did not anticipate. It was a problem for which no one gave me a warning. But it was a problem.

You see, I have a strong work ethic. Even now, though I don't have to work as much as I do, I'm still working. If I'm not trading, then I'm leading chat rooms, working on my web site, recording videos, writing books, writing articles, etc. It's not that I'm a workaholic. I take plenty of time to enjoy life, be with family, and exercise. But I do have a strong work ethic. Maybe you're the same way. You didn't start day trading in order to be lazy. You started day trading because it offered a unique way to make money from home - though I'm sure there were other factors involved.

If you combine a strong work ethic with a home-based business, then you have to be a wise steward of your time. You might work too much for example, not taking time for your family. You might tinker with this or that, instead of using the time wisely.

But, when you are working from home as a day trader, then there's another problem. You might feel as though you have to be constantly trading. Sitting in front of your computer and not having your equity at work - why, that just doesn't feel right. So, feeling the need for your money to be "in play" at all times, you can end up making some pretty stupid choices. You can become reckless, rather than strategic.

I say this from experience. That's how I used to be. I felt that idle money was wasted money.

This problem can be exasperated by personal economic pressure...i.e. the need to pay the mortgage. If you are day trading out of the same account from which you are paying bills (not a good idea), then the pressure to be constantly trading is even greater. This intermingling of funds just adds to the pressure you're already feeling. You can feel as though you're trading next month's mortgage, and that is not a good place from which to be day trading. So, my recommendation is that you have a trading account that is separate from your family account. Otherwise, your "need to trade" can turn into a compulsion to trade. And you begin to take on the wasted look of a gambler who's seen one too many gin and tonics and far too many roulette wheels.
The discipline I'm talking about is similar to the person who sits at the dinner table and "enjoys" eating a little too much. Discipline requires this person to push away from the table - to recognize one's limits, to feel the feelings that go off inside of us when we know we've over-indulged.

Likewise, the day trader has to learn when to push away from the table. It's okay to get out of a trade and turn off the computer at 12:30 in the afternoon and be done for the day. Yes, it really is okay. There is no law that says you must sit at your computer for eight hours a day and pretend you're in an office cubicle. Take a break. Go grab some lunch. Celebrate the fact that you have the freedom to create your own schedule. Give up on your compulsion to trade.

I'll be honest with you. Some days...I don't feel it. Some days...the charts just aren't speaking to me. Other days, I can do no wrong. I see things that amaze other traders. I call with pinpoint precision the exact point at which a stock will turn and go in the other direction. But everyday's not like that.

So, when I am "in the zone", I make good use of that time. I trade all day long. I trade because of the sheer joy of trading. And I make plenty of money. But occasionally, it feels like work. I can still trade with a profit, but it doesn't feel brilliant. I haven't changed the strategy...I just don't SEE it.

The reason I share these things with you is because you won't hear many people talk about trading in this way. No one wants to admit the things I admit. No one wants to admit that they have a bad day every now and then. No one wants to admit that it's not always easy and profitable. But, the way I see it, you need to hear the truth. You need people to be honest with you. And you need to hear that it's okay not to trade every minute of the day. It's okay to take an afternoon off. It's okay to have a sick day. It's okay to push away from the table.

Hey, if I don't tell it to you, then who will?

So, there's no need to be a compulsive trader. Idle money is not wasted money. Poorly traded money is wasted money. Money traded without a clear strategy - that is wasted money. But leaving your money parked in your account for a while because you don't see a worthwhile trade or because you need some time off - that's okay.
7. Traders expect too much from the afternoon session.

I've already mentioned a couple of reasons why traders might expect too much from the afternoon session. They may be trying to make up for losses incurred earlier that day. They may feel the pressure to make some money to pay the bills.

But, you can get into trouble by expecting too much from the afternoon session. Normally, the afternoon session provides plenty of volatility for trading. And we need volatility in order to be able to trade. Otherwise, it's like trying to sail a boat without any wind. To have the opportunity for creating gains, there must be volatility. But, HUGE volatility does not typically happen in the afternoon trading session. Why is that? Well, most financial news is released early in the morning. In the early morning, the market is sorting out any news that occurred over the past 17.5 hours since the market closed. That's a lot of time. Earnings reports may have been issued. Government reports on unemployment might have been released. National and international events may have caused hope or fear among traders. So, the morning session has a lot to ferret out.

By the time the afternoon session arrives, the market has usually figured out its response to that morning news. The market will have a trend established. There are exceptions to this, of course. Extreme nervousness among investors can cause the market to go down in the morning and up in the afternoon, and vice versa. But I teach a way to chart the markets. So, if this happens, you are fully prepared. And, as always, you want to trade along with the rest of the market sentiment. You don't want to argue with the market.

But, let's get back to my main point. Since the afternoon market tends to be a bit more stable, and less volatile, we have to trade accordingly. The big gains of 3% to 5% are not as likely to occur after two o'clock. (This doesn't mean they never happen however. As I type this, I am watching one of my trades gain nearly 5% in just 15 minutes - it's true.) There is simply not enough news to cause this sort of movement. So, gains of 1% are more frequent. That being said, however, achieving a 1% gain in the afternoon session is great. And if you can do this several times each afternoon with a few different trades then all the better. Adding that to your morning profits can help you end up with a very profitable day.

The good news about lower volatility though is that this lower volatility means lower risk for you. I'm sure you've had the experience of buying a stock and watching it turn against you almost instantly. Although this can happen at any time, it is less likely to happen in the afternoon session due to the lower volatility of the market. This also means that certain technical indicators work better in the afternoon market than in the morning market, due to this stability. So, you have to know which indicators are the most important ones to
watch. (Yes, I cover multiple indicators in the video series too.)

Well, this is the final landmine I'll cover with you. I hope you have picked up some pointers along the way and learned a little bit about trading the afternoon market from reading this series. You are invited, of course, to go ahead and check out the video series I've created for Trading the Afternoon Market. With written materials and over three hours of video, I'm sure you'll learn a lot about trading the afternoon market. Learning more about the technical indicators and how to trade the market will pay off over and over again for you. This is learning you can take with you throughout your trading career.

I wish you successful trading.

Sincerely,
Bob Joiner