

How to Day Trade and Make Money

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Day Trading by our definition is a high frequency trading strategy, taking advantage of normal rising and falling stock market moves evident every day, based upon short-term overbought and oversold levels. Instead of waiting for a longer term move to develop or complete to enter a trade position, this strategy recognizes the income generating opportunity that the small moves seen every day can provide to an active trader / investor.

The time horizon for Day Trading is from a few hours to a few days, from entry to exit.

Day trading can leverage its profit potential by selecting Options instruments on underlying Exchange Traded Funds and Notes (ETFs and ETNs). We have observed that selecting Options expiration dates from two weeks to a month in the future allows for risk management should an entry be too early, which best protects a position from options value time decay.

Selecting Options strike prices near the money, close to the actual value of the underlying ETF the option is written on, provides strong profit potential, strong delta price change potential, which translates to strong price profit potential. To play a small rising trend, we would purchase Call Options. To play a small declining trend, we would purchase Put Options. We do not write options, we do not purchase options on margin, and we do not sell options we do not already own. The Day Trading we do is conservative, where the most we can lose is what we invest. This is called trading Options "Long."

The Opportunity:

Day Trading offers high frequency trading opportunities. One could likely do a day trade almost every day, or even two or three day trades every day, by simply focusing on a few major markets. We particularly like to focus on the following six markets: The Dow Industrials (DIA), the S&P 500 (SPY), the NASDAQ 100 (QQQ), Small caps that closely track the Russell 2000 (IWM), Gold the metal (GLD), and Mining stocks that may be seen in the HUI (GDX). These markets offer good liquidity, with narrow bid / ask spreads, which means options value (profit potential) movement should tightly correlate with the price movement of the ETF and major markets we are playing with our trades.

Below is a chart of the Dow Industrials over the first two weeks of June 2021. Notice how many day trading opportunities presented themselves:



There was an opportunity to make money playing the five small declining trends and five small rising bounces in the Dow Industrials over the first two weeks of June 2021.

The Expected Return on Investment Opportunity:

Our experience is that the size of the moves we see above in the Dow Industrials have an expected profit potential typically of from 10 percent to 30 percent per trade. The caveat is that we correctly identify when the bottom arrives and when the top arrives. But if we have solid entry and exit indicators, that we can rely upon to tell us within a

few points of when a bottom has arrived or a top has arrived, we can do pretty well. To determine this, we are watching for short-term overbought and oversold conditions. Our goal is to have 70 percent or better winning trades to net out with nice profits on the whole. The strategy is that the high frequency of Day Trades generating 10 to 30 percent returns, while only investing small amounts of dollars at risk, can accumulate to significant overall net additional income for the trader / investor.

An Example of a Day Trade we Conducted:

We entered a Call Option position on the DIA (playing the Dow Industrials) at 1:15 pm Monday, June 14th, 2021. We invested \$1,295 by purchasing 5 Options contracts (each contract controls 100 shares) at a price of \$2.59 per option share, or \$259 per contract. We chose a strike price of 348, and an expiration date of July 16th, 2021, about a month out in the future.

This next chart shows where we entered the trade:



At the time we entered the trade, which was playing the Dow Industrials (DIA) to start a bounce higher, the DIA was trading at approximately 342.64. Our expectation after this entry was, because it looked short-term oversold, there should be a bounce.

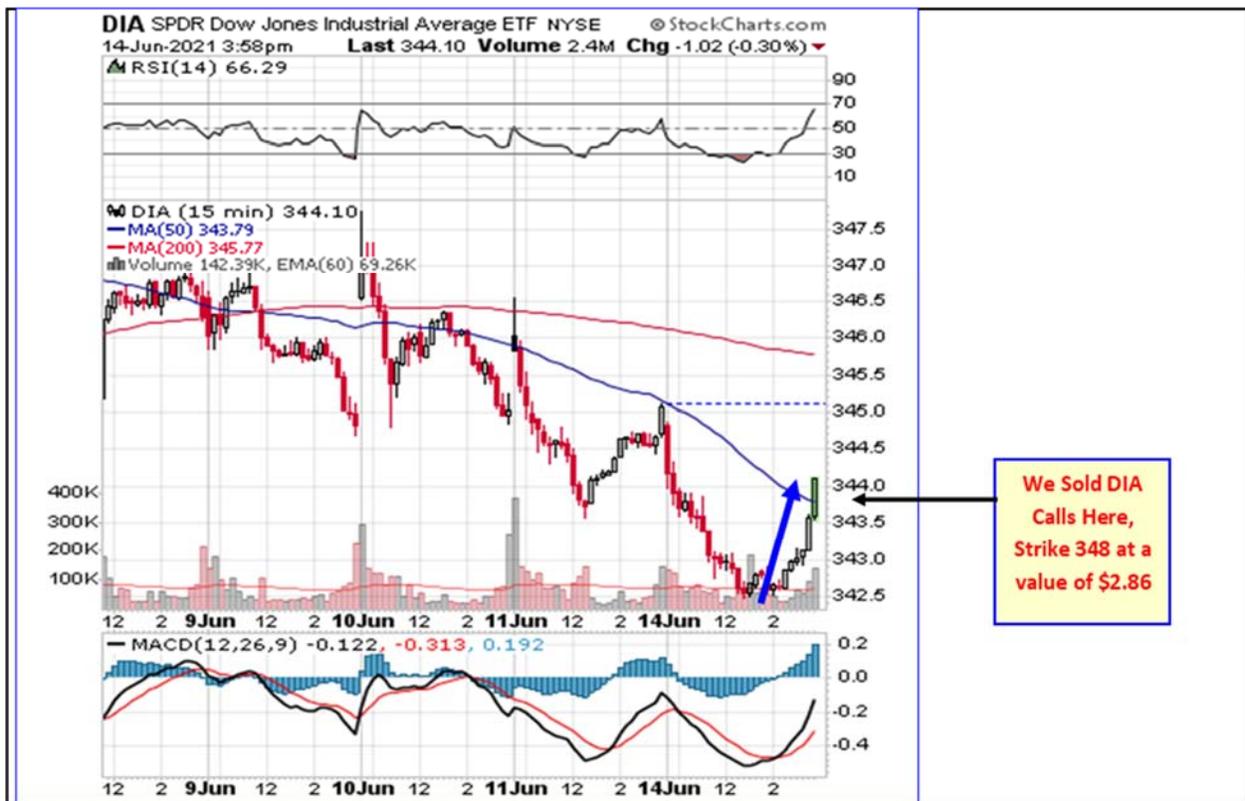
We do not guess how high the bounce will be. It can vary. What we do is a very disciplined approach, no matter how high the bounce, once our short-term indicators tell us the DIA has become short-term overbought, we sell to close the trades. Obviously the greater the bounce, the greater the profit for us on this trade. Again, because this is Day Trading, very short-term trading, we do not let a trend run like we might if we were doing larger degree, longer term trades that would be based upon patterns, wave mappings, key long-term trend-finder indicators, and many other factors. With day trading, we often will be taking positions against the larger degree primary trend, so we want to get out once the very short-term trend has reached its overbought (in this example trade's case) or very short-term oversold if we were originally playing a move down.

So, how did this particular trade work out for us?



Well, we generated a 10.4% profit on this one. The Dow Industrials and DIA did bounce as expected, almost immediately, and reached an overbought level about when it rose to 343.75, around 3:43 pm the same day, June 14th, 2021. Options markets closed at 4:15 ET, so we were cognizant that we had a nice profit, and wanted to take it before the market closed, which could have seen a reversal lower either at the close or the next morning (which did happen by the way the next morning).

At the time we closed the trade, the DIA Call Option, strike 348, due July 16th, 2021, had risen in value from this bounce from our original cost of \$2.59 per share, or \$259 per contract) to \$2.86 per share, or \$286 per contract, generating a profit of \$135, or 10.4 percent on our investment of \$1,295, in just two and a half hours.



Evaluating our Profit:

To me, Day Trading is sort of like fishing. You have to say to yourself, I am going to get up this morning, devote the entire day to the fishing hole, have my snacks, my pole, iPhone, and sit back and wait for the fish to take the bait. Then I act and hopefully catch a big one. If it gets off my line, I get out, and no matter how big a fish it is, I get my pole

out of the water. We have to be patient, and disciplined. We never want to yank on the pole too soon or the catch will get away. We have to act only when the pole jerks, not before and not too late, or it will get away.

The metaphor is obvious. We have to be able to get up in the morning and say to ourselves, today I am going to devote my time from the open of the market until the close of the market, to making money doing day trades. This means a commitment to sitting at my computer all day, keeping watch of the short-term moves and waiting for my reliable short-term overbought / oversold indicator to signal that an opportunity has arrived for a short-term reversal that can be played. If I am overanxious and enter too soon before the short-term indicator hits its mark, I may end up okay, but I may have to wait longer than I wanted for this trade to perform. If I wait too long to get out, the next reversal may start and I could lose my profits pretty fast. I have to stick with the short-term key indicators, stay disciplined, not get greedy.

Some times I am going to catch a small fish, a sunny or a crappy, sometimes a nice bass or catfish, and sometimes an exciting carp or trout. On occasion there will be a minnow, or the fish will break my line, costing me time and some money. However, I have to remember, this is high frequency trading, and the goal and a reasonable expectation if I stay disciplined is that about 70 percent of the time I will have a winner, about 10 percent of the time there will be no gain or loss, a breakeven trade, and about 20 percent of the time, some losses due to an unexpected market development from some news event or something. This is considered speculating by many, but with solid overbought and oversold short-term indicators, and with solid discipline by the trader / investor, quite a bit of money can be made, in a reasoned, historically evident, fashion, which to many people reclassifies it from speculating to rational investing. The key here is that it is an available opportunity to make an additional income stream if one has the time to devote to it.

One does not have to become a slave to this. There are so many opportunities every day from these six major markets I identified earlier, that one can simply say, maybe I will only Day Trade one, two or three days a week, and then spend my time otherwise

the rest of the week. It really is an opportunity for just about everyone just sitting there, like a golf ball on a tee, saying to the golfer, "Hit me, I am just sitting here"

When to Enter and When to Exit:

There are many very short-term indicators available on most trading platforms that can identify possible very short-term oversold and overbought conditions. What we do in our Platinum membership Trading Service, is we have alerts for longer term trades, but we also provide some assistance to our subscriber members for when there is a Day Trading opportunity. We provide from 25 to 50 Day Trade alerts per year, that identify what we believe is a likely oversold or overbought level in one of the six major markets mentioned above, and not only that, but we forward an alert by email giving all the details of an options trade that one could consider at that time. Here is an actual example of what we sent out for the above DIA Day Trade on June 14th, 2021, that generated a 10.4% profit in two and a half hours:

First, the entry email:

Below are trades published for educational purposes that we are mentioning in the hopes of demonstrating how to generate a trading profit. This is intended to be an impersonal, educational product. Dr. McHugh and Main Line Investors, Inc. are not to be considered the reader's investment advisor. Please consult your Investment Advisor before Trading.

Options Trade:

Note: Day or Short-term Trade: Intended to be open only a few hours or days.

Trade Alert # 1, June 14th, 2021 (New Purchase) On June 14th, 2021, at approximately 1:15 pm EDT, we identified an opportunity to purchase to open the following options position:

Instrument: **DIA (playing the Dow Industrials) Call Options**

Quantity: **5** options contracts (each contract has 100 shares)

Strike Price: **348**

Expiration Date: **July 16th, 2021**

Symbol: [DIA210716C00348000](#) (not all online trading brokers accept this universal symbol, and you may have to find the option on your online broker system, or with your broker, by using the other information provided in this alert. If you are unsure how to find the option instrument to trade, contact the support area of your online broker for their guidance with their system).

Cost: [\\$2.59 per options share](#), or \$259 per contract, for a total investment of \$1,295, which represents [an exposure of 0.13 percent](#) (approximately one-eighth of one percent) of a \$1,000,000 portfolio.

Comments: This trade is playing a very short-term rising trend move for the Dow Industrials stocks, that could only last a few hours or days. Risk can be controlled by doing a lesser quantity trade than we show here, or by passing on the trade. The DIA was at 342.64 at the time of this trade.

Note: This is not trading advice. Should you choose to conduct a trade based upon the above information, we suggest you consult with your financial advisor first. You assume the risk of any trades you conduct. This information is impersonal, and is for educational purposes only, and there is no guarantee it will generate a profit. The process of following this trade is intended as a learning experience.

Best regards,

Bob McHugh, Ph.D.
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Then the exit email:

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Options Trade: Taking \$135, 10.4% Profits

Closing Trade: This was a Day or Short-term Trade, intended to be open only a few hours or days.

Trade Alert # 2, (Sold To Close) On June 14th, 2021, at approximately 3:43 pm EDT, we sold to close the following Call Options position **at a profit of \$135, 10.4%** (Revenue \$1,430 less our cost \$1,295):

Instrument: **DIA Call Options**

Quantity: 5 options contracts (each contract has 100 shares)

Strike Price: 348

Expiration Date: July 16th, 2021

Symbol: DIA210716C000348000 (not all online trading brokers accept this universal symbol, and you may have to find the option on your online broker system, or with your broker, by using the other information provided in this alert. If you are unsure how to find the option instrument to trade, contact the support area of your online broker for their guidance with their system).

Revenue: \$2.86 per options share, or \$286 per contract, for total revenue of \$1,430.

Original Cost: \$2.59 per options share, or \$259 per contract, for a total investment of \$1,295, which represented an exposure of 0.13 percent (approximately one-eighth of one percent) of a \$1,000,000 portfolio.

Comments: This trade ran its course, as our day trade exit indicator triggered. It was playing a very short-term rising trend move for the Dow Industrials, that could only last a few hours or days. We originally purchased these options June 14th, 2021 at a cost of \$2.59 per options share, or \$259 per contract, and selling them at \$2.86 generated a \$135, 10.4% profit in a few hours.

Note: This is not trading advice. Should you choose to conduct a trade based upon the above information, we suggest you consult with your financial advisor first. You assume the risk of any trades you conduct. This information is impersonal, and is for educational purposes only, and there is no guarantee it will generate a profit. The process of following this trade is intended as a learning experience.

Best regards,

Bob McHugh, Ph.D.

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So, we give an assist to those who want to do Day Trading with our Platinum Membership at www.technicalindicatorindex.com . We do not present every trade opportunity there is every day on all six markets, as that would be probably over 1,000 Day trades, but we do provide enough to help members get confirmation of what they might be seeing themselves, or perhaps alert them to something they might not have

considered, or even for the publishing of fresh educational idea purposes. But the trades are real, the alerts are real, and the results are real.

I for one particularly like Day Trading in a low volatility market environment. While it also works in high volatility markets, longer term trading does not do well when market are flat or dull. However, Day Trading does do well, no matter what environment the markets find themselves in.

How to Select the Option to Day Trade:

Perhaps the best way to answer this is to give a live example for the above June 14th trade.

What we did was we went to our online trading brokerage account, opened up the Options Chain screen for DIA, and then studied the situation at the moment where we believed per our short-term overbought / oversold indicator, that the Dow Industrials were oversold, bottoming on a very short-term basis, and we began the process of selecting a good strike price that was priced at a level where if the DIA moved from 342.64 a point or two higher toward 344, we could realize a nice profit. Of course, in this case we were studying Call options. Below is a copy of the screen shot we were looking at.

SPDR DOW JONES INDUSTRIAL AVERAGE ETF TRUST (DIA)
 Last 342.68
 Change -2.44
 Bid 342.69
 Ask 342.70
 Volume 1,441,725
[Trade](#) | [News](#) | [Chart](#)

DIA @ 342.68

July 16 2021 Calls

	Strike	Bid	Ask	Last	Change	Volume	Open Interest	Day Low	Delta	Gamma	Theta	
<input type="checkbox"/>	333.00	11.55	11.70	13.35	0.00	0	73	0.00	0.00	0.768	0.022	-0.001
<input type="checkbox"/>	334.00	10.65	10.90	14.39	0.00	0	127	0.00	0.00	0.750	0.024	-0.001

DIA @ 342.68

July 16 2021 Calls

		<input type="text"/> Clear Selections											
	Strike	Bid	Ask		Last	Change	Volume	Open Interest	Day Low	Delta	Gamma	Theta	
<input type="checkbox"/>	335.00	9.95	10.10		10.05	-1.80	4	150	10.75	9.95	0.726	0.025	-0.01
<input type="checkbox"/>	336.00	9.10	9.40		10.50	0.00	0	265	0.00	0.00	0.703	0.026	-0.01
<input type="checkbox"/>	337.00	8.40	8.65		9.35	-0.65	2	237	9.35	9.35	0.677	0.027	-0.01
<input type="checkbox"/>	338.00	7.70	7.90		9.19	0.00	0	220	0.00	0.00	0.651	0.029	-0.01
<input type="checkbox"/>	339.00	7.05	7.25		7.18	-2.07	1	361	7.18	7.18	0.622	0.030	-0.01
<input type="checkbox"/>	340.00	6.40	6.60		6.45	-1.47	24	634	7.50	6.45	0.593	0.031	-0.01
<input type="checkbox"/>	341.00	5.80	6.00		6.55	-0.09	1	435	6.55	6.55	0.562	0.031	-0.01
<input type="checkbox"/>	342.00	5.30	5.40		5.30	-1.11	50	224	6.19	5.27	0.530	0.032	-0.01
<input type="checkbox"/>	343.00	4.65	4.85		4.74	-1.11	1,031	306	5.40	4.74	0.498	0.033	-0.01
<input type="checkbox"/>	344.00	4.15	4.35		4.25	-1.05	37	249	4.98	4.25	0.465	0.033	-0.01
<input type="checkbox"/>	345.00	3.70	3.85		3.76	-1.04	48	863	4.89	3.76	0.432	0.033	-0.01
<input type="checkbox"/>	346.00	3.30	3.40		3.35	-0.87	37	310	4.20	3.35	0.400	0.032	-0.01
<input type="checkbox"/>	347.00	2.94	2.99		3.30	-0.50	2	504	3.30	3.30	0.368	0.031	-0.01
<input type="checkbox"/>	348.00	2.58	2.62		2.59	-0.66	8	351	3.06	2.59	0.336	0.031	-0.01
<input type="checkbox"/>	349.00	2.24	2.28		2.22	-0.66	43	233	2.74	2.22	0.305	0.030	-0.01
<input type="checkbox"/>	350.00	1.91	1.99		1.95	-0.62	119	985	2.33	1.91	0.275	0.028	-0.01
<input type="checkbox"/>	351.00	1.63	1.72		1.80	-0.38	5	105	2.22	1.80	0.246	0.027	-0.01
<input type="checkbox"/>	352.00	1.41	1.49		1.64	-0.30	1	184	1.64	1.64	0.221	0.025	-0.01
<input type="checkbox"/>	353.00	1.22	1.28		1.29	-0.30	50	171	1.46	1.26	0.197	0.024	-0.01
<input type="checkbox"/>	354.00	1.07	1.11		1.06	-0.33	24	108	1.29	1.06	0.176	0.022	-0.01
<input type="checkbox"/>	355.00	0.91	0.95		0.93	-0.23	127	420	1.08	0.93	0.155	0.020	-0.01
<input type="checkbox"/>	356.00	0.78	0.82		0.82	-0.17	5	298	0.88	0.82	0.137	0.019	-0.01

What we were looking for on this screenshot Options Chain, was what strike price could we select that would be at a price (for a Call Option on DIA, expiring July 16th, 2021) that if we bought it, a one-point rise in DIA (which translates to about a 100-point rise in the Dow Industrials (a price move typical of the small overbought / oversold moves we have been seeing in the market lately) would generate for us at least a 10% profit on our investment. We also kept in mind that we wanted to limit our total investment for this trade to around \$1,000 +/- . So, we selected to buy the strike 348 (highlighted in red, at a

cost of \$2.58 to \$2.62), seeing that if DIA rose a point, the new value for the strike 348 would become close to the above value for the 347, in this case the bid for the 347 is showing \$2.94 per options share (see highlighted in green). So, we selected the strike 348, thinking it could generate at least a \$0.30 profit on \$2.59.

We put in an order between the bid and the ask, hoping to win a negotiation, as sometimes a block trade ahead of us needs more volume to fill it, and we can get a cheaper price than the ask price. Or, sometimes, in the few seconds that transpire after an order is given, the ask will change in our favor. We were successful at a \$2.59 entry (see above in red highlight under "Last").

And once in, as shown above, the DIA did rise almost a point and a half, and we got out at \$2.86 per options share, at the moment our short-term overbought indicator flashed. It did rise a bit more near the close for the day, but we made money, were satisfied and disciplined with our trading system, and happily got out \$135 richer than when we got in. I will take 10.4 percent profits in two and a half hours all day long, any day of the week. Do this over the course of a year, and the bank account should do well.

Risk Management:

Of course, all of the above depends upon an individual's trading experience, risk appetite, financial strength, and personal financial situation. Number one, a trader / investor should first consult with their financial advisor before starting a Day Trading program. How does this fit within a person's financial plan? How much should be allocated to this sort of income generating strategy? If one has a \$200,000 portfolio, what is the maximum he should allocate to an options trading strategy, how much should he allocate to each trade entered? If an individual has a \$1,000,000 portfolio, should they go with a larger allocation? But considerations include, a person's age, future cash needs, income needs, etc... So, again, a personal financial consultant should be used to determine suitability and allocations of trading dollars to Day Trading.

Obviously, the greater the risk, the greater the reward, but also the greater the occasional loss. One rule I like to state for myself is, I only want to trade what I can comfortably afford to lose, and what lets me sleep well at night.

Happy Trading!

Robert McHugh Ph.D. is President and CEO of Main Line Investors, Inc., and can be reached at www.technicalindicatorindex.com and mainrdmch@aol.com . The statements, opinions, buy and sell signals, and analyses presented in this article are provided as an impersonal general information and education service only. Opinions, estimates, buy and sell signals, and probabilities expressed herein constitute the judgment of the author as of the date indicated. *Nothing contained in this article is intended to be, nor shall it be construed as, investment advice, nor is it to be relied upon in making any investment or other decision. Prior to making any investment decision, you are advised to consult with your broker, investment advisor or other appropriate tax or financial professional to determine the suitability of any investment.* Neither Main Line Investors, Inc. nor Robert D. McHugh, Jr., Ph.D. Editor shall be responsible or have any liability for investment decisions based upon, or the results obtained from, the information provided. Copyright 2021, Main Line Investors, Inc. All Rights Reserved.