3 Ways to Speculate the Markets

Which is Best For You?

The time horizon for finding opportunities and holding positions determines the type of trader that you are. Sam Seiden explains the differences and discusses his career as a trader and the timeframes that he has used to trade.

During my years in the trading and trading education world, I have been a day trader, swing trader and longer term position trader. While my strategy has never changed, the time horizon for finding opportunities and holding positions has changed a bit over my career. Also, I have the benefit of watching many traders with Online Trading Academy as they attempt to become successful day, swing and position traders. The focus of this article is to explain the differences between day, swing and position trading, and to explore the advantages and disadvantages to these different styles.

Day Trading

Day trading is typically described as entering a position in the market with the intention of exiting that position before the close of the trading session. Day trading requires fast Internet connection speeds, powerful computers, backup systems, real-time data, direct access execution systems and multiple monitors.

The Pros

For traders with high energy, who are looking for action, but also have very good discipline, day trading is for you. Generally, profitable day traders are not the ones taking 10 to 100 trades a day. The consistently profitable day traders are the ones who typically take the 1 to 3 quality opportunities offered to them, usually near the open of the trading session. Individuals who are very good at making key decisions on the fly can do well here. Day trading allows traders to take advantage of the many short-term imbalances that occur in the markets each day.

"Become proficient at identifying market turning points."

The Cons

Day trading is attractive to many individuals because of its "get rich quick" mindset. While some traders do very well in a short period of time, most end up losing money in this venture. Emotions tend to run very high when day trading, making rule-based execution difficult for those who have any issues with discipline. There is also the added difficulty of competing with market makers at the day trading level.

Day trading is the most time-consuming trading style because it requires you to be in front of your computer screens each day while you are trading. Traders who are not good at making quick decisions are not likely to succeed at day trading.

Swing Trading

Swing trading is typically described as entering a position in the market with the intention of holding that position for one day to a couple weeks, or even longer in some cases. Swing trading does not require real-time data or direct access execution though it is recommended.

The Pros

From my experience, swing trading is where I see the largest number of aspiring traders succeed. Swing trading captures the market niche with the least competition. It falls in a timeframe that is too large for day traders and too small for longer-term investors and institutions. Proper swing trading does not require a big time commitment. Spending an hour or so performing your market analysis two or three times a week will suffice.

Typically, swing traders take advantage of technology and use the "set it and forget it" approach when entering market positions. Not having to be in front of your computer screens for precise position entry and real-time position management helps take the biggest risk to trading out of the equation – you and your human emotion. Swing trading offers the benefit of pre-planning every aspect of the trade no matter when you are doing your analysis. In fact, the best time to perform your swing trading market analysis is when the market is closed.

The Cons

Swing trading is somewhat boring to the active day trader because opportunities are not present each day. For those who choose to swing trade stocks, the opportunities tend to come in bunches. For example, when the S&P is in an uptrend and price has temporarily declined to a demand (support) level, most stocks will be set up as buying opportunities at that time. When the S&P rallies from that level, most of the low risk swing-trading entries are gone. This is not necessarily a bad thing, but the waiting game is generally unattractive to most people.

Longer Term Position Trading

This style is typically described as entering a position in the market with the intention of holding that position for weeks to months. There is no need for real time data or direct access execution in this style of trading.

The Pros

Longer-term position trading is what most people consider "buy and hold." This may be the best style of trading assuming (and this is important) you buy and hold at the right time. This style of trading is very hands-off because every aspect of the trade is planned in advance. Longer term position trading is the least time-consuming type of speculating and leaves plenty of time to enjoy other things in life outside of the markets and trading.

The Cons

Many long-term market speculators use news and professional opinions as their primary analysis tool. Typically, this leads to buying high and selling low which means losing money. Ideally, price charts, demand and supply should be your primary decision-making tools. This style takes time to produce results. Successful trades may take place over a multi–week or month period and some people are not fine with this. As humans, we typically want instant gratification. Also, this style requires capital to be tied up for longer periods of time than day and swing trading, so opportunity costs may be a concern.

Whatever type of trader you are, keep in mind that your rule-based strategy will not change. A strategy that works in one market or timeframe should work in any market or timeframe. Whether you are day trading on a one-minute chart, or taking three trades a year off opportunities found on the weekly chart, consistently profitable market speculators derive consistent income by buying low and selling high, or selling high and buying low.

This means that you must become proficient at identifying market turning points. This is the ability to objectively quantify demand and supply in any and all markets. Once you can do this, identifying price levels where this simple and straight-forward equation is out of balance is not that difficult and is where low risk / high reward opportunities lie.

As for me, the most profitable and comfortable trading style has always been swing trading. While the other two styles are fine and I trade them all, I find that swing trading is best for me. If you have any other questions on these different styles and need help determining which is best for you, email me anytime. TTJ

Sam Seiden brings over 15 years experience of equities, Forex, options & futures trading from when he was on the floor of the Chicago Mercantile Exchange where he facilitated institutional order flow. He has traded equities, futures, interest rate markets, Forex, options, and commodities for his personal interests for years and has educated hundreds of traders through seminars and daily advisory services both domestically and internationally. Sam has been involved in the markets since 1991. He has served as the Director of Technical Research for two trading firms and regularly contributes articles to industry publications. Sam is known for his trading, technical research and educational guidance.