About Logic Investments

Logic Investments was founded in 2009 to provide a relationship-based advisory investment service to clients who want a more traditional, reliable and personal approach to the management of their investments. Our team of investment managers have on average 14 years experience of working within traditional investment firms. Logic’s investment process – clear-cut, repeatable and systematic – is the distillation of that experience and is designed to address the pitfalls of more traditional ways of building equity portfolios.
What is Index Trading?

Index Trading is unlike commodity trading where a trader invests in a commodity or Forex trading where one invests in a currency. An index is basically a figure that reflects the health of a market or an economy so when you invest in an index you are essentially investing in a fund that mirrors the movement of the index. What index trading enables you to do is to invest in a very large segment of a market, or even an entire market itself. For example, in stock index trading, you have the option of investing in the FTSE 100, NASDAQ, the Dow Jones, or the S&P 500, among other indices, all of which reflect different broad market properties. By investing for instance in the Dow, you would be investing in a significant portion of the industrial market.

Why Trade Indices instead of Shares?

Here are a few of the advantages of trading indices instead of individual shares:

- **More available leverage than trading shares** - The leverage possible with Index future contracts creates a profitable environment for even trades of a few percent index gain.
- **Less technical analysis** - investors are able to spend more time on analyzing one chart, then trying to screen through thousands of stocks for the right company
- **High liquidity** - The highly liquid market also creates tighter spreads which translates into less money spent per transaction.
- **No need to screen stocks for fundamental data** - A lot of time is saved from not having to analyze financial reports. The trader will spend most of his time looking at the big picture and overall market sentiment.

How can I trade Indices?

You can trade indices via a CFD (contract for difference), ETF, index future or option. They all have their strengths and weaknesses.

A CFD is not a standardized instrument listed on exchanges. It is essentially a betting instrument provided by a firm for you speculate in the particular market you are interested in. There are stock CFDs, commodity CFDs and other types of CFDs. The advantage of CFDs is the ability to trade in micro lot size. Logic Investments offers its clients access to either the Saxo Trader 2 Platform or IG's Platform. It allows our clients to trade CFD contract sizes from as low as £1 per point on the FTSE 100 index for example. This allows you to speculate without risking the kind of money that index futures would require. The disadvantage with CFDs is that firms offering the CFDs have to make money off the spread of the price. Spread is the difference between the best bid and ask price at any moment.

Index futures are traded on a Futures Exchange and have an expiry date and thus their pricing includes a forward premium of interest and a discounted dividend which can be confusing. In this Index CFDs are often simpler to comprehend as they trade at the spot price (with a small commission on top) and do not expire.
There is no special advantage to trade the ETFs (e.g. SPY). A standard lot is 100 shares. Going below the regular lot size your trade may have to be routed to odd-lot dealers as oppose to directly handled through the regular channels. If you have very small size trading account, trading ETFs is not as flexible as trading CFDs.

**When to trade Indices**

Many professional traders will choose to trade in times of high market volatility such as when the chosen market has just opened or when it is soon to close. In addition global news events or key economic data, such as the U.S. non-farm payrolls or interest rate announcements trigger above average volatility.

**The Importance of Timing**

We would like to think that we can profit from the news if we act faster than others. It's not true.

- The market moves on anticipation. "Buy the rumour, sell the fact." If you bought on every piece of good news published in the press you would be broke.
- The market responds to the difference between the actual news and what was expected. The unemployment rate could have dropped 0.2 percent, and the market falls because it expected a drop of 0.4 percent.
- *Action* does not always mean immediate *reaction*. When did the Fed start lowering interest rates? When did the market start to respond? In the case of interest rates, it always takes more than one move by the Fed before you see a reaction in the economy.

**Price Action Trading**

Whilst economic data and other global news events are the catalysts for price movement in a market, we don’t need to analyze them to trade the market successfully. The reason is pretty simple; all economic data and world news that causes price movement within a market is ultimately reflected via price action on a market’s price chart. Ultimately, analyzing price action tells you who is in control of the market. It also tells you who is losing control: the buyers or the sellers. Once you are able to determine this, you can pinpoint reversals in an index and make money.

**Technical Trading Signals**

Technical trading is the process of making trading decisions based on clear, objective, predetermined rules. Those rules apply only to price data, volume, and for futures markets, open interest. The techniques used in technical trading include trendlines, moving averages, chart patterns, and a few indicators based on simple mathematical formulas. None of it is complicated, but it takes practise to do it right.

A technical trader may also be influenced by fundamentals. A long-term trend follower- one who buys a stock when the trend is rising is really tracking the increase in the value of the stock in an objective way.
Before we go any further into technical trading signals it is important to understand the types of charts most traders use.

**Understanding Charts**

<table>
<thead>
<tr>
<th>Chart Type</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Line Charts</strong></td>
<td>Line charts are the most basic type of chart. Technical analysts often use line charts to easily identify support and resistance levels. Line charts only have basic information plotted on the chart, which means there is not a lot of other “clutter” to get in the way of your analysis. You create a line chart by plotting the closing price of each trading period on a chart and then connecting each closing price with a line. To the right you can see an example of a line chart.</td>
<td></td>
</tr>
<tr>
<td><strong>Bar Charts</strong></td>
<td>Bar charts provide more information than a line chart. Technical analysts often use bar charts to gain more information about how an index price moved up and down during each trading period. Whereas line charts only plot the closing price from each trading period, bar charts plot the opening, high, low and closing prices from each period. You create a bar chart by plotting a series of bars across the chart. Each bar represents one trading period. To create a bar, you plot the high and low price of a trading period and connect them with a vertical line. Next, you plot the opening price out to the left side of the vertical line you have just drawn and connect that point to the vertical line with a horizontal line. Last, you plot the closing price out to the right side of the vertical line you have just drawn and connect that point to the vertical line with a horizontal line.</td>
<td></td>
</tr>
</tbody>
</table>
Candlestick charts provide the same information as bar charts but in a slightly different format. Technical analysts often use candlestick charts instead of bar charts because it is easier to see and identify various trading patterns using candlestick charts. In fact, a complete line of technical analysis—Japanese candlestick chart analysis—was developed around these easy-to-use charts.

You create a candlestick chart by plotting a series of candlesticks across the chart. Each candlestick represents one trading period. To create a candlestick, you plot the high and low price of a trading period and connect them with a vertical line. This line is called the wick of the candle. Next, you plot the opening price by drawing a horizontal line through the vertical line, or wick. After you have plotted the opening price, you plot the closing price by drawing another horizontal line through the vertical line. Lastly, you fill in the area between the opening price and the closing price. This area is called the body of the candlestick.

Trading with the Trend

Identifying the trend and trading with it is vital to your success as a trader. The stock market can be an emotionally charged place and, when traders start pushing the price of a stock in one direction or another, other traders typically start to follow suit and push the index in the same direction. When you see increasing momentum building behind a moving index, the chances are good that the index will continue moving in that direction. At that point you increase your odds of making money by trading with the trend. Fighting the trend generally turns out to be a losing proposition.

Trends tell you where prices will most likely be going in the future. If traders are pushing the market higher you ought to buy the index to make money. If traders are pushing index lower, you ought to sell the index to make money. If traders in disagreement over where the stock price should go and are pushing the stock price sideways, you ought to wait until the trend is clearly up or down to make money.
Trends do not move straight up or straight down. Different traders have different outlooks on where they believe the stock price is going to move in the future and they make their investments accordingly. These investments cause the stock price to move up and down within the same trend.

When a majority of traders believes the stock price is going to move in one direction they can overpower the minority of traders who disagree with them. When this happens, the stock price begins to follow a trend and will usually move in one direction for a while until the majority loses confidence in further movement and the price movement subsequently loses momentum. As the majority loses confidence the minority can momentarily exert its influence and push the stock price in the opposite direction to retrace part of the previous movement. However, once the majority catches its breath and decides to resume building momentum, it will turn the stock price back around and continue in the previous direction.

Every time an index turns around and begins moving in the opposite direction it forms a new high or a new low. New highs form when an index moves higher and then turns around and moves lower. New lows form when an index moves lower and then turns around and moves higher. Identifying these highs and lows allows you to identify whether an index is in an upward trend, a downward trend or a sideways trend.

<table>
<thead>
<tr>
<th>Type of Trend</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Upward Trends</strong></td>
<td>An index that is trending upward form a series of higher highs and higher lows.</td>
<td><img src="image" alt="Upward Trend Example" /></td>
</tr>
<tr>
<td><strong>Downward Trends</strong></td>
<td>An index that is trending downward form a series of lower highs and lower lows.</td>
<td><img src="image" alt="Downward Trend Example" /></td>
</tr>
<tr>
<td><strong>Sideways Trends</strong></td>
<td>An index that is trending sideways form a series of highs that are at approximately the same price level and a series of lows that are at approximately the same price level.</td>
<td><img src="image" alt="Sideways Trend Example" /></td>
</tr>
</tbody>
</table>
Support and Resistance

Identifying support and resistance levels is one of the first things you learn in technical analysis. It is the most important aspect of chart reading.

Horizontal support and resistance levels form as prices rise or fall to the same levels time and time again. You can see these support and resistance levels take shape on charts of the index you are interested in trading as the price moves back and forth. The chart below shows areas of technical support around 6600 and resistance around 6660. Notice that the support and resistance levels are never exact; they are always approximate.

Diagonal support and resistance levels, you will find, can be a trader’s best friend. Whilst these levels can be more difficult to identify when you are just getting started, they are invaluable when you are analyzing an index that is on a trend. Remember, you want to identify the index trends early because it is much easier to make profitable trades when the index is on a trend.

The graph below shows an example of a clear upward trending channel.
Moving Averages

Moving averages show you the direction in which an index is going and where potential levels of support and resistance may be. Moving averages themselves can serve as both support and resistance.

Moving averages are constructed by finding the average closing price of an index at any given time and then plotting these points on a price chart. The result gives you a smooth line that follows the price movement of the index.

You can adjust the volatility of a moving average by adjusting the timeframe which the indicator looks at to obtain an average price. Moving averages that look at fewer time-frames to determine an average are more volatile. Moving averages that look at more time-frames to determine an average are less volatile.

The chart below shows 3 moving averages of differing time-frames. The red line is the 20 day moving average, the green the 50 day moving average and the black is the 100 day moving average.
Moving averages provide useful trading signals that are on a trend.

**Entry signal**—when an upward-trending index bounces back up after hitting an upward-trending moving average, or when a downward trending index bounces back down after hitting a downward trending moving average.

**Exit signal**—when you invest on an upward-trending index set a stop-loss below the moving average. As the moving average rises, move your stop-loss up along with the moving average. If the index ever breaks far enough below the moving average, your stop-loss will take you out of your trade.

When you enter a trade on a downward-trending index, set a stop-loss above the moving average. As the moving average falls, move your stop-loss down along with the moving average. If the index ever breaks far enough above the moving average, your stop-loss will take you out of your trade.

<table>
<thead>
<tr>
<th>Strengths of a Moving Average</th>
<th>Weaknesses of a Moving Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>They identify simple trends.</td>
<td>They lag behind the market because the data used to calculate a moving average is historic, which doesn’t necessarily reflect what will happen in the future.</td>
</tr>
<tr>
<td>They are flexible enough to work in both short-term and long-term time-frames.</td>
<td>They cannot identify trends, or levels of support or resistance, during channelling markets.</td>
</tr>
</tbody>
</table>
Bollinger Band Trading Signals

Bollinger bands provide useful breakout signals that have been consolidating.

**Entry signal**—when the bands widen and begin moving in opposite directions after a period of consolidation (see Point A on the chart below), you can invest in the direction the price was moving when the bands began to widen.

**Exit signal**—at some point after the breakout occurs the bands will begin to move back toward each other (see Point B on the chart below). When this happens, set a trailing stop-loss to sell if the trend reverses (see Point C on the chart below).

<table>
<thead>
<tr>
<th><strong>Strengths of Bollinger Bands</strong></th>
<th><strong>Weaknesses of Bollinger Bands</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>They help you identify the trend.</td>
<td>They lag behind the market because the data used to calculate Bollinger bands is historic, which doesn’t necessarily reflect what will happen in the future.</td>
</tr>
<tr>
<td>They identify current market volatility</td>
<td>The bands do not, as is commonly believed, serve as support (i.e. the lower band) and resistance (i.e. the upper band) levels.</td>
</tr>
</tbody>
</table>
Oscillating Indicators

Oscillating indicators move back and forth as the index rises and falls. Oscillating indicators can help you determine how strong the current trend is as well as when that trend is in danger of losing momentum and turning around.

When an oscillating indicator moves too high, the index is considered to be overbought. This indicates the index is at risk of losing momentum and turning around to move lower or sideways.

When an oscillating indicator moves too low, the market is considered to be oversold. This indicates the index is at risk of losing momentum and turning around to move higher or sideways.

Moving Average Convergence/Divergence (MACD)

The moving average convergence/divergence (MACD) is an oscillating indicator developed by Gerald Appel that can show you when trading momentum changes from being bullish to bearish and vice versa. The MACD can also show you when traders are becoming over-extended, which usually results in a trend reversal.

The moving MACD is based on a series of moving averages and how they relate to one another. The standard MACD looks at the relationship between a 12-period and 26-period exponential moving averages. The MACD looks specifically at the distance between these two moving averages. If the 12-period moving average is above the 26-period moving average then the MACD line will be positive.

If the 12-period moving average is below the 26-period moving average then the MACD line will be negative. The MACD line is accompanied by a trigger-line. This line is a 9-period exponential moving average of the MACD line.
You can also plot the MACD as a histogram below the chart. When the histogram is above the 9-period signal line (illustrated by a horizontal line on the histogram) it is signalling that the 12-period moving average is above the 26-period moving average (see Point A). When the histogram is below the 9-period signal line it is signalling that the 12-period moving average is below the 26-period moving average (see Point B).

**Entry signal**—when the MACD crosses above the trigger line you can buy the index knowing that momentum has shifted from being bearish to being bullish.

When the MACD crosses below the trigger line you can sell the index knowing that momentum has shifted from being bullish to being bearish.

**Exit signal**—when the MACD crosses back below the trigger line when you have bought the index you can sell the index back knowing that momentum has shifted back from being bullish to being bearish.

When the MACD crosses back above the trigger line when you have sold the index you can buy the index back knowing that momentum has shifted back from being bearish to being bullish.

<table>
<thead>
<tr>
<th>Strengths of MACD</th>
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</tr>
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<tbody>
<tr>
<td>It helps you identify when the momentum of an index.</td>
<td>It lags behind the market because the data used to calculate the CCI is historic, which doesn’t necessarily reflect what will happen in the future.</td>
</tr>
</tbody>
</table>
Guide to Trading Indices

It helps you confirm the strength of current trends. | It can provide false signals.

**Price Patterns**

Learning to recognize various price patterns gives you an advantage over traders who are only using fundamentals or technical indicators. Price patterns are chart formations that provide insights into what traders are thinking and feeling at various price levels. There are two types of price patterns, Continuation Patterns and Reversal Patterns.

Continuation patterns give you advanced warning when an index is likely to resume its trend after a short consolidation period and tell you how far the index is likely to move in that direction. Of course, continuation patterns are not infallible, but they do put the odds of success in your favour.

**Pennants**

Pennants are continuation patterns that form as the price of an index moves into a tighter and tighter consolidation range. Pennants can be either bullish or bearish, depending on what the trend was before the pennant began to form. If an index was in an upward trend before the pennant began to form, it is a bullish continuation pattern. If an index was in a downward trend before the pennant began to form, it is a bearish continuation pattern. Pennants usually form over short periods of time.

Pennants all have the following five characteristics:

- Resistance level (A)—a downward-trending level of resistance that is converging with the support level.
- Support level (B)—an upward-trending level of support that is converging with the resistance level.
- Flagpole (C)—the trend preceding the formation of the pennant. The flagpole spans the distance from the beginning of the trend to the highest point of the pennant (for a bullish pennant), or the flagpole spans the distance from the beginning of the trend to the lowest point of the pennant (for a bearish pennant).
- Breakout point (D)—the point at which the index breaks up above the downward-trending level of resistance (for a bullish pennant), or the point at which the index breaks down below the upward-trending level of support (for a bearish pennant).
- Price projection (E)—the price to which index will most likely fall after it has broken out of the pennant formation (for a bearish pennant), or the price to which the index will most likely rise after it has broken out of the pennant formation (for a bullish pennant). The distance the index is projected to move is equal to the height of the flagpole.
Flags

Flags are continuation patterns that form as the price of an index pulls back from the predominant trend in a parallel channel. Flags can be either bullish or bearish, depending on what the trend was before the flag began to form. If an index was in an upward trend before the flag began to form, it is a bullish continuation pattern. If an index was in a downward trend before the flag began to form, it is a bearish continuation pattern. Flags usually form over short periods of time.

Flags all have the following five characteristics:

- Resistance level (A)—downward-trending a level of resistance that is parallel with the support level (for a bullish flag), or an upward-trending level of resistance that is parallel with the support level (for a bearish flag).
- Support level (B)—a downward-trending level of support that is parallel with the resistance level (for a bullish flag), or an upward-trending level of support that is parallel with the resistance level (for a bearish flag).
- Flagpole (C)—the trend preceding the formation of the flag. The flagpole spans the distance from the beginning of the trend to the highest point of the flag (for a bullish flag), or the flagpole spans the stance from the beginning of the trend to the lowest point of the flag (for a bearish flag).
- Breakout point (D)—the point at which the index breaks up above the downward-trending level of resistance (for a bullish flag), or the point at which the index breaks down below the upward-trending level of support (for a bearish flag).
- Price projection (E)—the price to which the index will most likely fall after it has broken out of the flag formation (for a bearish flag), or the price to which the index will most likely rise after it has broken out of the flag formation (for a bullish flag). The distance the index is projected to move is equal to the height of the flagpole.
Reversal Price Patterns

Traders continually ask themselves the question “Can this trend continue?” Deciding whether a trend is over and if it is time to trade against the previous trend is difficult. You can never know if an index is going to turn around and start moving in the opposite direction. But you can make an educated guess!

Reversal patterns give you advanced warning when an index is likely to turn around and begin a new trend, and how far the index is likely to move in the opposite direction. Of course reversal patterns are not infallible, but they do put the odds of success in your favour.

It is recommended that you are familiar with the following reversal patterns:

Double-tops/Bottoms

Double-tops/bottoms are reversal patterns that form as the price of an index hits a support or resistance level two times before the index turns around and moves in the opposite direction. Double-tops are bearish reversal patterns and double-bottoms are bullish reversal patterns. If an index is in an upward trend, it will form a double-top. If an index is in a downward trend, it will form a double-bottom.

- Resistance level (A)—a horizontal, or slightly angled, level of resistance.
- Support level (B)—a horizontal, or slightly angled, level of support.
- Breakout point (C)—the point at which the index breaks up above the horizontal level of resistance (a triple-bottom), or the point at which the index breaks down below the horizontal level of support (a triple-top).
- Price projection (D)—the price to which the index will most likely fall after it has broken out of the triple-top formation, or the price to which the index will most likely rise after it has broken out of the triple-bottom formation. The distance the index is projected to move is equal to the distance between the support and resistance levels.
Head-and-Shoulders Tops/Bottoms

Head-and-shoulders tops are reversal patterns that form as the price hits a resistance level (forming the first shoulder), then breaks through the first resistance level and hits a higher resistance level (forming the head), and then hits the first resistance level again (forming the second shoulder).

- Left shoulder (A)—a horizontal, or slightly angled, level of resistance (head-and-shoulders top), or a horizontal, or slightly angled, level of support (head-and-shoulders bottom).
- Head (B)—a higher horizontal, or slightly angled, level of resistance (head-and-shoulders top), or a lower horizontal, or slightly angled, level of support (head-and-shoulders bottom).
- Right shoulder (C)—a horizontal, or slightly angled, level of resistance that is in line with the left shoulder (head-and-shoulders top), or a horizontal, or slightly angled, level of support that is in line with the left shoulder (head-and-shoulders bottom).
- Neckline (D)—a horizontal, or slightly angled, level of support (head-and-shoulders top), or a horizontal, or slightly angled, level of resistance (head-and-shoulders bottom).
- Breakout point (E)—the point at which the index breaks up above the neckline (head-and-shoulders bottom), or the point at which the index breaks down below the neckline (head-and-shoulders top).
- Price projection (F)—the price to which the index will most likely fall after it has broken out of the head-and-shoulders-top formation, or the price to which the index will most likely rise after it has broken out of the head-and-shoulders-bottom formation. The distance the index is projected to move is equal to the distance between the head and the neckline.

Candlestick Patterns

The Japanese Candlestick trading signals consist of approximately 40 reversal and continuation patterns. All have credible probabilities of indicating correct future direction of a price move. The following signals illustrate the major signals. The definition of "major" has two functions. Major in the sense that they occur in price movements often enough to be beneficial in producing a ready supply of profitable trades as well as clearly indicating price reversals with strength enough to warrant placing trades.
<table>
<thead>
<tr>
<th>Candlestick Pattern</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Bullish Engulfing pattern</strong></td>
<td>signifies a sharp end to the preceding bear period. To qualify as such, the bull candle (green) must completely engulf the previous bear candle.</td>
</tr>
<tr>
<td><strong>The Bearish Engulfing pattern</strong></td>
<td>signifies a sharp end to the preceding bull period. To qualify as such, the bear candle (red) must completely engulf the previous bull candle (green).</td>
</tr>
<tr>
<td><strong>The Bullish Hammer pattern</strong></td>
<td>signifies a sharp reversal in the current period. Bullish Hammers are commonly found at market bottoms. To qualify as such, the candle must have a long wick which is approx 3 times the size of the candle.</td>
</tr>
<tr>
<td><strong>The Bearish Shooting Star</strong></td>
<td>signifies a sharp reversal in the current period. Bearish Shooting Stars are most commonly found at market tops. To qualify as such, the candle must have a long wick which is approx 3 times the size of the candle.</td>
</tr>
<tr>
<td><strong>The Bullish Hirami</strong></td>
<td>suggests a slowing down in the preceding bear trend. Bullish Haramis are most commonly found at market bottoms. To qualify as such, the green candle must open and close within the boundaries of the previous bear candle (red).</td>
</tr>
<tr>
<td><strong>The Bearish Hirami</strong></td>
<td>suggests a slowing down in the preceding bull trend. Bearish Haramis are most commonly found at market tops. To qualify as such, the red candle must open and close within the boundaries of the previous bull candle (green).</td>
</tr>
</tbody>
</table>
### The Bullish Piercing

The Bullish Piercing suggests a trend change in the preceding bear trend. Bullish Piercing Patterns are most commonly found at market bottoms. To qualify as such, both candles must represent significant price movements. The greater the size, the greater the impact going forward.

### The Bearish Dark Cloud Cover

The Bearish Dark Cloud Cover signifies a sharp end to the preceding bull period. To qualify as such, both candles must represent healthy movements in relation to the period the pattern finds itself in. Additionally, the close of the bear candle must engulf the bull candle by at least half.

### The Bullish Doji

The Bullish Doji represents a period of indecision; the open and close prices are equivalent. Due to this period of indecision, it is thought that the current bear trend is slowing down and potentially reversing.

### The Bearish Doji

The Bearish Doji represents a period of indecision; the open and close prices are equivalent. Due to this period of indecision, it is thought that the current bull trend is slowing down and potentially reversing.

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**Day Trading v Swing Trading**

One of the first decisions you have to make as an index trader is to define the holding period for your trades. Your holding period will play a big role in determining your ultimate trading style. Your two options for holding periods are day trading (entering and exiting positions on the same day) or swing trading (entering a position one day and then exiting several days/weeks later).

The first major difference between swing trading and day trading has to do with managing risk on your trades. In day trading, you'll be entering and exiting positions on the same day and thus be able to go home flat every night. Day traders don’t have to worry or fret about overnight positions (unless they choose to hold a position).
In swing trading, however, you will frequently be holding overnight positions and thus will be subject to overnight risk which includes wider spreads on index positions running after the cash equity markets close.

Another major difference between swing trading and day trading deals with the amount of time required of each. Day trading typically requires intense focus throughout the trading day (or at least for a few hours). Day traders must analyze market activity, enter trades, and manage trades while the market is open.

Swing trading, on the other hand, usually requires less time spent during market hours to place and manage trades, as swing trades can last for many days and thus don’t need constant baby-sitting. This aspect of swing trading is what makes it attractive for those with full-time jobs that may not allow them much time during the trading day to analyze markets. However, swing trading does require extensive work after the market closes in the form of analyzing charts and identifying potential opportunities.

Lastly, day trades have the advantage of no overnight financing charges although commission costs will be generally higher due to the higher frequency of trading.

**Common Day Trading Strategies**

Here is a brief overview of some common day trading strategies:

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trend Trading</td>
<td>One common day trading strategy is Trend Trading. This strategy relies on the belief that a price will continue in a specific direction over a given period of time. For example, an index that is rising in price will continue to rise. Alternatively, an index that is falling in price will continue to fall. Traders are advised to exit the market when the price diverts from its current trend. Investors utilise trend lines and resistance lines to predict when the price will divert from its current direction as discussed earlier.</td>
</tr>
<tr>
<td>Scalping</td>
<td>Scalping is one of the most popular strategies, which involves selling almost immediately after a trade becomes profitable. Here the price target is obviously just after profitability is attained.</td>
</tr>
<tr>
<td>Fading</td>
<td>Fading involves shorting stocks after rapid moves upwards. This is based on the assumption that (1) they are overbought, (2) early buyers are ready to begin taking profits and (3) existing buyers may be scared out. Although risky, this strategy can be extremely rewarding. Here the price target is when buyers begin stepping in again.</td>
</tr>
<tr>
<td>Daily Pivots</td>
<td>This strategy involves profiting from a stock’s daily volatility. This is done by</td>
</tr>
</tbody>
</table>
attempting to buy at the low of the day (LOD) and sell at the high of the day (HOD). Here the price target is simply at the next sign of a reversal, using the same patterns as above.

**Momentum**

This strategy usually involves trading on news releases or finding strong trending moves supported by high volume. One type of momentum trader will buy on news releases and ride a trend until it exhibits signs of reversal. The other type will fade the price surge. Here the price target is when volume begins to decrease and bearish candles start appearing.

**Trading Rumours**

News creates what experts call “Volatility” in the market. Along with volatility, comes a market opportunity. Traders must determine how the market in general will respond to news. Once this is determined, traders may earn a profit based upon the speculation. Investors must be able to make split second decisions with this strategy.

Trading on the close, not on the open

You may find it very convenient to do all your calculations after the market closes, and then have all your orders ready for the next morning. However placing your orders on the close by calculating the trendlines just before the close of trading puts you ahead of almost everyone else. You always need to be ahead, not behind. If the index has crossed an important resistance line on the close, then you are likely to see prices jump higher on the next open. Entering your trade before that jump gives you free exposure to take advantage of.

**Why Money Management is Vital to Success**

The difference between a successful trader and a losing trader has a lot less to do with the successful trader’s ability to pick winners than you might think. All traders are going to experience losers and lots of them. It’s a fact of the business. A winner, however, embraces the understanding that a large element of any one trade is randomness — in effect, any given trade is, on some level, a gamble. Losing trades are inevitable, and the winner takes that inevitability into account. Many longtime successful managers have done it with a winning percentage just above 50% and even the best traders are right only about 60% of the time.

It isn’t necessary to achieve that success rate to profit in the long-term, though. It isn’t even necessary to be 50% right (see chart below). The depicted scenario assumes a 40% win rate — in other words, eight winning trades out of 20. The key to making a 40% win rate profitable is to structure your trades so that your winners profit at least twice as much as your losers lose — and that your initial stake can withstand the inevitable string of losses.
<table>
<thead>
<tr>
<th>Trade No.</th>
<th>Win/Lose</th>
<th>Profit</th>
<th>Loss</th>
<th>Account Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Win</td>
<td>£500</td>
<td></td>
<td>£500</td>
</tr>
<tr>
<td>2</td>
<td>Lose</td>
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<td>£250</td>
<td>£250</td>
</tr>
<tr>
<td>3</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>£0</td>
</tr>
<tr>
<td>4</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>-£250</td>
</tr>
<tr>
<td>5</td>
<td>Win</td>
<td>£500</td>
<td></td>
<td>£250</td>
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<tr>
<td>6</td>
<td>Lose</td>
<td></td>
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</tr>
<tr>
<td>7</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>-£250</td>
</tr>
<tr>
<td>8</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>-£500</td>
</tr>
<tr>
<td>9</td>
<td>Win</td>
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<td>10</td>
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<td></td>
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<td>-£250</td>
</tr>
<tr>
<td>11</td>
<td>Lose</td>
<td></td>
<td>£250</td>
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<tr>
<td>12</td>
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<tr>
<td>13</td>
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<td></td>
<td>£250</td>
<td>-£250</td>
</tr>
<tr>
<td>14</td>
<td>Win</td>
<td>£500</td>
<td></td>
<td>£250</td>
</tr>
<tr>
<td>15</td>
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<td>£500</td>
<td></td>
<td>£750</td>
</tr>
<tr>
<td>16</td>
<td>Win</td>
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<td></td>
<td>£1250</td>
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<tr>
<td>17</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>£1000</td>
</tr>
<tr>
<td>18</td>
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<td></td>
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<td>£750</td>
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<tr>
<td>19</td>
<td>Win</td>
<td>£500</td>
<td></td>
<td>£1250</td>
</tr>
<tr>
<td>20</td>
<td>Lose</td>
<td></td>
<td>£250</td>
<td>£1000</td>
</tr>
</tbody>
</table>

Of particular significance is that even though 60% of the trades are losers, after 20 trades the overall balance is a positive £1000.

**Trailing Stop Losses**

With a 40% win rate, it’s vital that winning trades are managed so that they profit enough to cover the larger number of losses. One method of trading to help achieve this involves the use of trailing stop losses.

Trailing stops are a risk management tool that allows traders to manage their risk without restricting their potential profit. Trailing stops help to secure gains as the market moves in your favour, giving you added flexibility as they will automatically track your profitable positions so that you don’t have to continuously monitor your position and move your stop manually. This more automated method of managing risk may help avoid for example the temptation to take a small profit and miss the potential for a much greater profit.

**Example of a trailing stop**

Here is an example of how one might use a trailing stop.

Buy £10 per point of FTSE 100 Futures at 6000. The level of the stop order is set at 5990 and the "Trailing" box is ticked.

If the market moves in your favour (higher) then the trailing stop will move in that direction according to the set size of increments. If it is set to increments of 10 points, then if your FTSE 100
Futures position moves higher by 10 points (to 6010), your trailing stop will jump up 10 points to 6000.

If the FTSE 100 Futures continue to rally without retracing, then for every 10 points it rises, your trailing stop will carry on stepping higher in increments of 10 points.

If at some point the FTSE 100 Futures turn lower, then your trailing stop will remain in place at the last level it has stepped to, acting as a normal stop order.

**Trading Psychology**

Traders will usually have started out in the financial markets trading stocks on a buy and hold basis. For many traders though, the ultimate ambition is to tighten the timeframe by successfully day trading shares and particularly indices where there is a deep pool of liquidity. However, the move from buying and holding stocks to day trading indices is a substantial step, both in terms of the new skills and strategies needed to consistently make money and the discipline required to manage risk.

The market is like a loud, brightly lit casino. The “buzz” gets you focused on exciting possibilities, which entice you into making trades with low odds of success. You are unlikely to be psychologically prepared to deal with the losses that arise from making low-odds trades. There will just be too many of them and they will make you angry and/or cause loss aversion, so that you will start trading-not-to-lose.

Common mistakes unsuccessful traders make include:

- Inability to stay in a winning trade;
- Entering too high for longs and too low for shorts;
- Overtrading and “revenge” trading;
- Unable to take a loss in stride and keep losses small;
- Compulsively trade against the trend;
- Can’t seem to learn from their mistakes.

Successful traders actively manage their mental attitude in order to maintain confidence in the face of uncertainty; discipline in the midst of randomness. A well-tested trading plan is essential. Many traders lack the discipline to follow a trading plan, even when they try to. These traders tend to be intelligent, creative and intuitive, but also inconsistent, disorganized and impulsive.

Professional traders exploit amateurs who make trading decisions based on emotion. If you do not carefully design and master your trading edge to be both aggressive and defensive, your trading account will serve as a source of funds for professionals.
How Logic Investments can help you trade

Logic Investments offers you a personalised advisory service tailored to your own trading preferences and knowledge and experience of trading. Our advisory service offers you the ultimate control over the trading decisions whilst gaining access to the experience and professional advice provided by our qualified brokers. The plethora of advantages to help you succeed in trading includes:

- Bespoke trading ideas and strategies.
- Advice on when to place a trade and when to avoid one.
- Risk management advice including stop losses and limit orders.
- Deal via the telephone and/or online via one of our multi award winning platforms.
- One to one tutoring with one of our experts.
- No sign up fees or management fees.
- Low commission rates.

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