



Small Account CHALLENGE

My Small Account Strategy

If you're trading a small account yourself, you can download or print this guide to help develop your own strategy.

Quality vs Quantity

With a small account I have to focus on each trade giving me the biggest return with the least amount of risk. That means **my quality threshold is going to be much higher** than in my larger trading accounts. When I think about quality, specifically this means I have to make sure that any trade I take meets many of the following criteria — outlined here but covered in more depth below.

1. I pick the right stocks to day trade
2. I have the right entry point
3. I select a reasonable share size
4. I manage my risk before and during the trade

Stock Selection

My process of finding stocks each morning is to use stock scanners. I search for the **biggest gapping stocks** and the **highest relative volume stocks**. A gap occurs when a stock opens higher than it closed the previous day. This is the result of breaking news that causes investors and traders to be willing to pay more for the stock than it was priced at during the previous trading session. Relative volume is often the result of breaking news as well. It means the stock is trading on much higher volume than what is normal for that stock. These are the two types of stocks that will gain the most attention among day traders.

Since I'm trading in a small account, I will focus only on stocks that are priced under \$20. However, I will set a min price of \$1.00, because penny stocks are very risky.

When I'm looking at the Stock Scanners I'm going to be specifically looking at 5 things.

1. **Price:** If the stock is too expensive, I won't be able to afford enough shares to make the trade worth it.
2. **Percentage Change Today:** I want to trade the most obvious stocks each day. I'll sort by highest percentage change since big movers attract more attention.
3. **Relative Volume:** While total volume can be important, and even more important metric is the relative volume. I'd like to see relative volume of at least 5x above average.
4. **News:** I'd prefer to trade stocks with news. Stocks going up on no news can offer opportunities but would carry more risk of a sudden drop.
5. **Float:** To keep the supply/demand imbalance in check, the high demand should be combined with a low level of supply. Floats of under 20 million shares are preferred, and lower is generally better as long as the stock meets the other criteria above.

I need a stock to meet all of these criteria to be considered an A quality stock for day trading. In order to be consistently profitable, I need to be trading the "obvious" setups on A quality stocks. If the setup is obvious to me, it will be obvious to tens of thousands of other traders, and that means the stock will trade in a more predictable manner. Each morning I focus on stocks that I truly believe have the potential to gain 20-30%. I need those large percentage gains to grow a small account. Since I don't have a lot of buying power, if a stock only has the potential to go up 5-10 cents per share, it's really not worth it to take that trade. With my larger account I could make a profit from such a small move by purchasing more shares, but I can't do that here. Trading in a small account requires the discipline to only trade the best stocks and the best setups each day.

As always, each morning while I'm trading I will be live streaming for Warrior Starter and Warrior Pro students to watch. Small account challenges are an opportunity for me to demonstrate the strategies I teach in my full length courses.

How will you find the right stocks?

Entry Setups

I will focus on the same patterns I used when I turned \$583 into \$10mil, and have continued to use every day since crossing the \$10mil mark. **Pullback patterns** — A pullback pattern is when I buy a dip. It's sort of like "buy low sell high", except in the context of a day trade. These pullback setups will occur both on the 1min and the 5min time frame. However, these will only be appropriate on the **right type of stocks to trade**. So I will not apply this pullback setup to just any stock I see, but to stocks that are leading gappers or leading relative volume stocks.

What patterns are you comfortable recognizing?

Where will you learn about them?

Share Size Process

My share size and trade frequency limitations will be a factor of the broker I choose. If I trade with a US broker such as Charles Schwab, E*Trade, or Fidelity, I will not be offered leverage and in a cash only account I can only trade once my previous trade has settled. As per the May, 2024 change in settlement days to T1, if I trade with all my available cash today I'll be able to trade with it again tomorrow morning. Previously we had T3 which required 3 miserable days until a trade would settle and we could place a new trade. However, with a small account of \$1,000, being limited to only trade \$1,000 worth of stock each day certainly is limiting.

International brokers will allow unlimited day trading and up to 6x leverage. Their minimum account sizes are generally \$500. The major drawbacks are platform fees (often over \$200/mo), commissions per trade, wiring fees for deposits and withdrawals, and a lack of United States deposit insurance.

One of Warren Buffet's quotes is that "diversification is a protection against ignorance. It makes little sense if you know what you are doing." In other words, when I see something I like, I'm all in.

What share size will you trade with? With your account, how many shares can you afford to trade of some recent stocks I've traded?

(Hint: watch my recaps and then look up the ticker symbols!)

Risk Management Technique

My biggest challenge here will be to avoid the temptation to swing for home runs. Home runs often come at the cost of base hits. I give up the base hit to go for the big trade. I won't be able to afford that during a small account challenge. This means being more mindful about taking profits quickly, and not holding for a big winner. I will aim for 75% accuracy with average winners being twice the size of my average losers.

Rule 1: Risk \$50 to make \$100 (during the first week)

Rule 2: Daily max loss at -\$100

Rule 3: Three consecutive losers and I'm done.

What rules would you use to trade and mitigate risk?

How will you enforce them and keep track of them?

Being Present...

It's extremely important when trading in a small account to be in the moment each day. That means accepting the current strength or weakness of the market. I have always had a hard time accepting weakness in the market. Everyday when I show up to trade I'd like to have a big winner. Unfortunately, that's not always possible. With a small account, I can't afford to take unnecessary risk. That means I'm going to take it slow when the market is slow, and be aggressive only when the market gives me the green light.

What will your pre-market trading routine be?

How will you manage emotion and gauge what kind of market we're in?