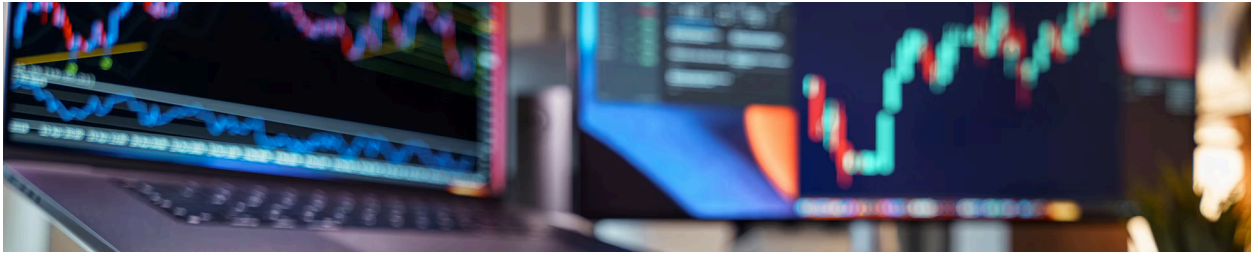


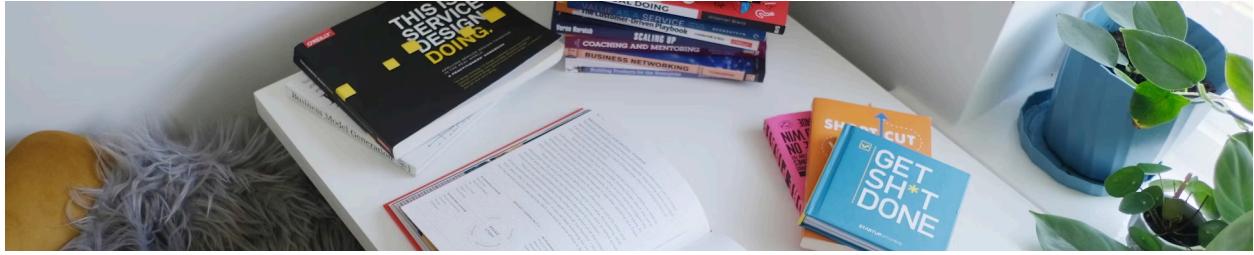
Module 1 – Introduction to Stock Investing



"An investment in knowledge pays the best interest."

— Benjamin Franklin

Lesson 1 – Introduction



Welcome to Module 1!

In this module, you'll explore the basics of stock market investing, focusing on different trading strategies, the importance of managing emotions, and the GhosTrades 4-Step System. You'll learn how active and passive investing approaches differ, how to control your trading decisions by understanding psychological traps, and how to apply a systematic method to select and trade stocks. You'll also learn why it is important to identify, analyze, and decide on stocks using structured rules and routines.

Understanding these concepts is key to developing a disciplined approach to active stock trading, helping you manage risks and identify opportunities.

Each Module contains one or more Lessons on separate, but related, topics. At the end of the module are homework assignments. Be sure to begin these before moving on to Module 2. They will help ensure the information in this module “sticks” in your mind, and help you understand the next concepts that build on it. Additionally, you will begin paper, or virtual, trading soon before trading real money. This will be valuable practice. By going through this course, doing assignments, and paper trading, you'll become proficient with these ideas. Remember: you learn by doing!

Module 1 Resources

To enhance your learning experience, make sure to utilize these key resources. Beginning with this module, start to become familiar with them:



Community - Connect with fellow students and GhosTrades staff, get your questions answered, support each other, and collaborate on assignments. It's a great place to share insights and learn from diverse experiences.

<http://ghostrades.mn.co/>



My Courses - Access all your courses, including this one! It's where you'll find your lessons, assignments, and progress tracking

<https://member.ghostrades.com/my-courses/>



The GhosTrades Trading Platform - Research and execute both virtual and real trades. This platform is an essential tool for applying what you've learned in a practical, hands-on environment.

<https://app.ghostrades.com/app/>

Lesson 2 – Stock Market Basics



In this lesson, we look at the world of stocks and stock markets for a clear understanding of what stocks are, how they represent company ownership, and the intricacies of their trading on stock markets. You'll learn about the different types of stocks, the factors that influence stock movements, and the role and function of stock markets. Additionally, this lesson covers key terminology and concepts important for active investing, such as market trends, analysis techniques, and trading strategies.

What You Will Learn – You'll learn stock ownership, market operations, and essential trading terminology.

Why It's Important – This knowledge forms the foundation for successful active stock trading, enabling informed decision-making and strategy development.

1.1 Understanding Stocks and Stock Markets

A stock represents a fraction of ownership in a company. When you buy a stock, you're purchasing a share of the company's assets and profits, essentially becoming one of its owners. Companies issue stocks to raise capital, and these stocks are then traded by investors on various stock markets. There are various types of stocks. Here are the two most common:

- **Common Stocks** – Most stocks are common stocks, offering shareholders

voting rights and potential dividends. However, in the event of liquidation, common stockholders are last in line for the company's assets. Common stocks are virtually always the type of stock you will actively trade.

- Preferred Stocks – These stocks usually don't provide voting rights but offer a higher claim on assets and earnings. Preferred shareholders often receive dividends before common shareholders. These stocks often pay a higher dividend but have lower growth potential.

Stock exchanges are centralized platforms where securities, such as stocks, bonds, and other financial instruments, are bought and sold. They play an important role for individual investors, who typically engage with these markets through online brokerage platforms. Notable stock exchanges include the New York Stock Exchange (NYSE) and the NASDAQ, which are based in the United States. These markets facilitate the visibility and liquidity that investors rely on. For regular trading, these exchanges are open from 9:30 AM to 4:00 PM Eastern Time on weekdays.



Phantom-Facts!

Did you know that the first stock exchange was established all the way back in 1602 by the Dutch East India Company in Amsterdam, making it the world's first company to issue bonds and shares of stock to the general public? This innovation laid the foundation for the modern global financial system.

Understanding Stock Movements

Stock movements are influenced by a multitude of factors, including company performance, economic factors and indicators, investor sentiment, geopolitical events, and more. Market trends, news, and financial reports can have significant impacts on stock prices, driving them up or down based on perceived value and future potential. It is important to note the idea of “perceived” value. In between news events and stock trading is the psychology and interpretation of buyers and sellers. It is these subject interpretations of facts and data that move stock prices.

To understand these movements, investors typically rely on two main types of analysis: fundamental analysis, which focuses on a company's financial health and intrinsic value, and technical analysis, which uses historical price data and market statistics to identify patterns and trends. You will learn to conduct both types of analysis in this course.

Stock Markets & Indices

Stock markets, like the NYSE and NASDAQ, are where stocks are bought and sold, both as physical and digital spaces. These markets act as barometers of the economy, with stock prices reflecting the collective valuation of companies by investors. Prices fluctuate based on supply and demand, influenced by factors we just discussed such as company performance, economic conditions, and geopolitical events.

Indices like the Dow Jones Industrial Average and the S&P 500 track the performance of select groups of stocks, giving you a snapshot of the market's overall health. Whereas a stock market is a place where many stocks trade, an index is simply a list created to represent a sample of the overall market or similar. For example, the Dow Jones Industrial Average is a list of [30 prominent companies](#) representing the various sectors of the U.S. economy. The S&P 500 is 500 companies, more than the Dow but still representing the U.S. economy. When investors say the Dow or S&P 500 is “up” or “down,” they’re implying that the stock market as a whole is up or down. If they are up for the year, then U.S. stocks are stronger on average than the previous year, with some sectors and industries doing better or worse than others, and therefore inferring the U.S. economy is stronger as well.



Image 1: The New York Stock Exchange (NYSE)

Major Market Movements

The stock market is often labeled as either a bull or bear market.

- Bull Markets – These are periods of rising stock prices, typically signaling investor confidence and a robust economy.
- Bear Markets – Marked by falling stock prices, indicating economic slowdowns or investor pessimism.

Dividends

Some stocks pay dividends, which are portions of a company's earnings distributed to shareholders. Dividend-paying stocks can provide a steady income stream.

Importance to Active Trading

For active investors, understanding the basics of stocks and stock markets is

fundamental. This knowledge allows you to

- Analyze company performance and potential growth
- Understand market trends and adapt your investment strategies accordingly
- Identify opportunities for both short-term gains and long-term investments
- Make informed decisions based on economic indicators and company news

Active trading requires staying informed and being able to quickly assess how changes in the market and individual companies might impact your investment portfolio. Whether you're day trading, swing trading, or looking for long-term growth, a solid grasp of stocks and how they're traded is important. It enables you to navigate the complexities of the market, manage risks effectively, and capitalize on opportunities for profit in the ever-changing landscape of stock investing.

1.2 Key Terminology and Concepts

As an active investor in trend trading, it's important for you to understand the key terms and concepts related to stocks, the stock market, and stock investing:

Stock – A stock is a share in the ownership of a company. When you buy a stock, you're purchasing a piece of that company's assets and earnings.

Stock Market – This is the marketplace where stocks are bought and sold. The stock market reflects the overall health of the economy and is influenced by factors like corporate earnings, economic indicators, and global events.

Bull Market – A period when stock prices are rising, indicating investor confidence and economic growth. In a bull market, you'll find more opportunities for profitable trades.

Bear Market – This is when stock prices are falling, often due to economic downturns

or investor pessimism. Bear markets can be challenging, but they also offer opportunities to buy undervalued stocks.

Trend Trading – This is a strategy where you aim to capitalize on the momentum of stock prices. In trend trading, you identify stocks that are moving in a clear upward or downward direction and trade based on those trends.

Volume – The number of shares traded in a stock within a specific time frame. High volume indicates strong interest in a stock and can confirm trends.

Volatility – This refers to how much a stock's price fluctuates. Higher volatility means more risk, but also potential for higher returns.

Technical Analysis – A method of evaluating stocks by analyzing statistics like historical prices and volume. Technical analysis helps you identify trends and make informed trading decisions.

Fundamental Analysis – This is the evaluation of a company's financial health. You analyze earnings, assets, and other financial data to assess a stock's intrinsic value, which aids in long-term investment decisions.

Technical Studies/Indicators – Tools in technical analysis that help predict future stock movements. Examples include moving averages and RSI (Relative Strength Index). These indicators assist you in identifying trends and making timely trades.

Options – A form of derivative trading that gives you the right, not obligation, to buy or sell a stock at a set price within a certain period. Options trading can be used for speculation or risk management, and requires understanding of various strategies and risks. You will learn more about options outside of this course.

Understanding these terms and concepts is important for you as a trend trader. They form the backbone of your trading strategy, enabling you to navigate the stock market confidently and make more informed decisions.

Lesson 3 – Active vs. Passive Investing



In this lesson, we'll explore the distinctive qualities and advantages of both active and passive investing approaches. You'll understand how each method differs in terms of engagement, strategy, and potential outcomes in the stock market. With a focus on active investing, we'll delve into the proactive management of investments, including making timely decisions based on market analysis. We'll also discuss passive investing, which involves a more hands-off approach, often through index funds or Exchange Traded Funds (ETFs) that track overall market performance.

What You Will Learn – You'll comprehend the key elements and benefits of active and passive investing, gaining insight into how each approach fits different investment goals and styles.

Why It's Important – Grasping the differences between active and passive investing equips you with a broader perspective on managing your investments. Understanding these approaches enables you to tailor your investment strategy to your individual needs and market conditions, thereby enhancing your ability to achieve your financial objectives.

1.3 Differences and Benefits of Each Approach

Understanding Active vs. Passive Investing is helpful for anyone entering the stock market. These two approaches offer different strategies and levels of involvement, which can significantly impact your investment outcomes. As an active trader, it's important to grasp the nuances of each method.

Active Investing

Active investing involves directly managing your investment portfolio, making decisions about buying, holding, and selling stocks based on current market conditions, economic trends, and individual company performance. As an active investor, you aim to outperform the market by leveraging your knowledge, analytical skills, and timely decision-making. These are key aspects of active investing:

- Hands-on Approach - Requires regular monitoring of the market and adjustments to your portfolio.
- Opportunity for Higher Returns - With the right strategy and market conditions, active investing has the potential to yield returns above the market average.
- Flexibility - Allows you to capitalize on short-term market movements and react to economic changes.

Passive Investing

In contrast, passive investing is about following the market's overall performance, typically through investments in index funds or ETFs that track market indices. This approach is based on the idea that it's challenging to consistently outperform the market, so it's better to match its long-term performance. These are key aspects of active investing:

- Lower Costs - Generally involves fewer transaction fees and lower management expenses.
- Diversification - Index funds and ETFs provide exposure to a wide range of stocks, reducing the risk of individual stock investments.
- Consistency - Aims for steady, long-term growth aligned with market trends.

Active Investing - A Focused Approach

As new active traders, it's important for you to understand that active investing requires a more engaged approach. It's suited for those who have the time, interest,

and resources to research and analyze market trends and individual stocks. While it involves more risk and effort, active investing gives you the control to tailor your investment strategies to your specific financial goals and risk tolerance.

By understanding the principles of active investing and how it contrasts with passive investing, you'll be better equipped to navigate the stock market and make informed decisions about your investments. Remember, active investing isn't necessarily about being better than passive investing, but rather about being more involved and responsive to market opportunities.

1.4 GhosTrades 4-Step System and Long-term Investing

While the primary focus of this course is on active investing through the GhosTrades 4-Step System, you'll also learn about a simpler, passive investing approach. This passive system is ideal for managing larger sums of money with a more hands-off and conservative strategy. It's designed to complement the active trading skills you're developing.

Passive investing involves putting your money into long-term investment vehicles like index funds or ETFs that track market indices. This approach is less time-intensive and aims for steady growth over time, mirroring the overall market performance. It's a great way to diversify your portfolio and reduce risk while still participating in the financial markets.

Understanding both active and passive investing methods allows you to make well-rounded investment decisions. Whether you're engaging in hands-on trading or looking for a more set-and-forget investment strategy, you'll have the tools and knowledge to manage your investments effectively.

Lesson 4 – Major Investing Approaches by Timeframe



In this lesson we'll discuss the nuances of Day Trading, Swing Trading, and Position (Trend) Trading. You'll learn how each strategy varies in terms of time frame and approach, with a special emphasis on Position Trading as a long-term method of capitalizing on market trends. We also delve into the concept of trading with the trend, a fundamental aspect of trend trading that leverages predictable patterns in stock movements for more consistent and profitable outcomes.

What You Will Learn – You'll learn the key characteristics of different active trading strategies and the importance of aligning your trades with market trends.

Why It's Important – Understanding these trading strategies helps you to choose the approach that best fits your goals and risk tolerance, with an emphasis on Position Trading for its ability to capture substantial market movements over time.

1.5 Overview of Day Trading, Swing Trading, Position (Trend) Trading

Active trading encompasses various strategies, each with its own time frame and approach. As a new active trader, it's important to understand the differences between Day Trading, Swing Trading, and Position Trading, with a particular focus on Position Trading as a form of Trend Trading.



Image 2: Each timeframe for trading strategies is different. The goal of Trend Trading is to capture the majority of a trend's movement – the 'wave' – from its beginning to its end.

Day Trading

Day trading is the most short-term trading strategy, where positions are held for just a day. It involves buying and selling stocks within the same trading day, capitalizing on small price movements. Day traders need to be quick, decisive, and constantly monitor the market. It's a high-stress approach that requires a deep understanding of market nuances and a high tolerance for risk. Due to its complexity, rapid pace, and liquidity problems, day trading is often considered the most challenging form of trading.



Swing Trading

Swing trading is a medium-term strategy where trades last from a few days to several weeks. Swing traders aim to capture gains in a stock within a short to medium timeframe, capitalizing on 'swings' in stock prices. It requires less constant monitoring than day trading but still demands a good understanding of market trends and the ability to react to short-term market movements. While it's more accessible than day trading, it still poses significant challenges, especially in volatile markets.



Chart 2: Swing Trading: A stock chart showing position entries (blue circles) and exits (red circles). A trader entered when they believed the stock was bouncing up, and exited when they believed the “swing” was over according to its past pattern.

Position Trading (Trend Trading)

Position trading, or Trend Trading as we emphasize in this course, is a longer-term strategy where you hold positions for weeks, months, or even years. The goal is to capture the majority of a trend's movement – the 'wave' – from its beginning to its end. Trend traders identify stocks that show a strong trend in a particular direction and hold onto these stocks until the trend begins to reverse. This approach requires patience, a solid understanding of market fundamentals, and the ability to identify and follow trends. It's less stressful than day or swing trading and is particularly suited for those who prefer a more strategic, big-picture view of trading.

Trend trading aligns well with active investors who are new to trading, as it allows for a more measured approach to the market. You have the opportunity to thoroughly analyze market trends and make informed decisions based on a longer-term perspective. While it requires patience, position trading can be less demanding in

terms of daily market monitoring and offers a more sustainable approach for those looking to grow their portfolios over time.

In summary, each trading strategy has its unique characteristics and challenges. Day trading is fast-paced and demanding, swing trading balances between short-term movements and medium-term holding periods, and position trading focuses on capturing longer-term trends. As you start active trading, understanding these differences helps you choose the strategy that best fits your goals, lifestyle, and risk tolerance. In this course, we focus on Position Trading – Trend Trading – as it offers a balanced approach to capturing market movements and aligns well with the learning curve of new active traders.



Chart 3: Trend Trading: A sustained uptrend in a stock. A trader entered (first blue circle) after believing the uptrend was established, and exited (second blue circle) once it ended.

1.6 Trading with the Trend

Trading with the trend is a core concept in active investing, particularly in trend trading, which is the focus of this course. Understanding and effectively implementing this strategy is not simply helpful—it's crucial, as it significantly increases your chances of success in the stock market.

The Importance of Trend Trading

Trend trading is based on the principle that stocks tend to move in relatively predictable patterns or trends over time. These trends can be upward (bullish), downward (bearish), or sideways (neutral). The key to trend trading is identifying these trends early and making trades that align with the trend's direction. By doing so, you're essentially riding the momentum of the market, which can lead to more consistent and profitable outcomes.

Trends are important because they reflect the underlying sentiment and fundamentals of the market or a specific stock. A stock in an uptrend, for instance, often has strong fundamentals, such as good earnings growth, solid management, and favorable market conditions. These factors can help sustain the trend, offering you a more predictable trading environment. Conversely, stocks in a downtrend might be struggling with poor earnings, management issues, or adverse market conditions.

Fundamental Analysis in Trend Trading

In this course, we emphasize the importance of fundamental analysis in supporting your trend trading decisions. Fundamental analysis involves evaluating a company's financial health, management, industry position, and market conditions. By understanding these factors, you can better assess whether a trend is likely to continue, putting the odds in your favor. Strong fundamentals often indicate that a stock's uptrend is sustainable, while weak fundamentals can signal potential problems ahead.

Identifying Trends

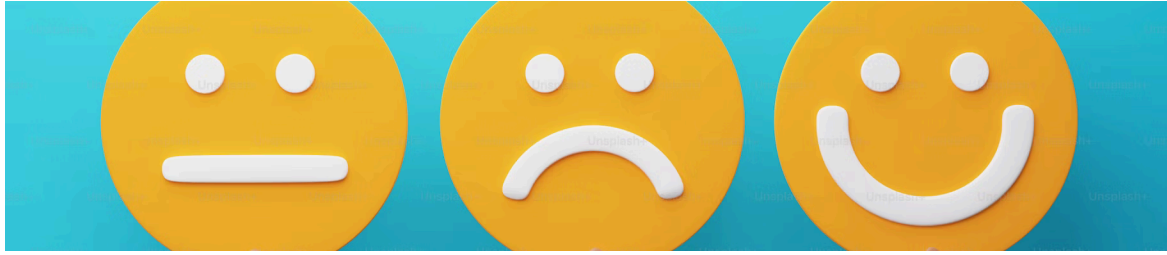
While we will delve into specific methods for identifying trends later in the course, such as using the Dow Theory of higher highs and higher lows or employing a 50-day simple moving average, it's important to start with a basic understanding of trend identification. Essentially, you're looking for patterns in stock price movements that indicate a consistent direction. An uptrend is often characterized by either a stock being above its rising 50-day simple moving average or by rising peaks and troughs (higher highs and higher lows). A downtrend shows declining peaks and troughs (lower highs and lower lows), or may be identified by a stock being below its decreasing 50-day simple moving average.

One of the biggest challenges for new investors is not just identifying a trend but having the discipline to stick with it. It can be tempting to react to short-term market fluctuations or to second-guess your strategy. However, successful trend trading requires patience, discipline, and a focus on the longer-term trajectory of a stock's price.

Applying Trend Trading in Practice

Trading with the trend is a powerful strategy that can lead to successful outcomes in active investing. By aligning your trades with the prevailing market or stock trend and underpinning your decisions with solid fundamental analysis, you increase your chances of making profitable trades. Remember, trend trading isn't about catching every market movement; it's about identifying sustainable trends and sticking with them to capture the majority of their movement. This approach, combined with a strong understanding of market fundamentals, is key to becoming a successful trend trader.

Lesson 5 – Psychology of Investing



In this lesson we'll delve into the mental aspects of trading, starting with the importance of emotional discipline. You'll learn how emotions like fear, greed, and overconfidence can impact your trading decisions and explore strategies to manage these emotions effectively. We'll also cover common psychological traps that traders face and how to avoid them, emphasizing the role of self-awareness and disciplined decision-making.

What You Will Learn – You'll learn the importance of emotional discipline in trading, recognize and avoid psychological traps, and learn the value of establishing rules and systems in your trading approach.

Why It's Important – Mastering the psychological aspects of trading is essential for making sound decisions and achieving long-term success. By learning to control your emotions and follow a structured approach, you'll be better equipped to navigate the challenges of the market and develop into a more proficient and consistent trader.

1.7 Emotional Discipline in Trading

As a newer active trader, one of the most vital skills you can develop is emotional discipline. Trading can be an emotional rollercoaster, with rapid market changes and the potential for significant financial gains or losses. Learning to manage your emotions is key to making sound decisions and achieving long-term success in trading.

The Impact of Emotions on Trading

Emotions like fear, greed, and overconfidence can heavily influence your trading decisions. Fear can lead to panic selling at a loss or avoiding beneficial trades. Greed might push you to take excessive risks or hold onto a position for too long. Overconfidence can result in ignoring warning signs or failing to adhere to a well-thought-out strategy.

For example – Consider two traders, Alex and Jordan. Alex, lacking emotional discipline, buys a stock during a market upswing, driven by excitement and a fear of missing out. When the market dips slightly, Alex panics and sells at a loss. Meanwhile, Jordan, who practices emotional discipline, sticks to a predetermined strategy, resists impulsive decisions, and holds onto the stock, understanding that markets fluctuate. Ultimately, the market recovers, and Jordan benefits from sticking to the plan.

The experiences of these two likely sound familiar, but it's helpful to be reminded of the contrast between their behavior and its outcomes.

Building Emotional Discipline

Consider the following as your checklist to build emotional discipline in your trading:

1. Awareness – Be aware of your emotional state and how it could influence your trading decisions.
2. Plan and Strategy – Develop a trading plan with clear rules for entering and exiting trades. Stick to this plan regardless of your emotional state.
3. Risk Management – Set realistic risk limits for each trade. Knowing you're only risking what you can afford to lose helps reduce emotional stress.
4. Reflect and Learn – Regularly review your trades to understand the impact of your decisions and learn from mistakes.

Why Emotional Discipline is Vital

Trading isn't just about understanding the market; it's equally about understanding

yourself. Emotional discipline helps you maintain focus and make decisions based on logic and strategy, not fleeting feelings. It's one of the few sorts of "holy grails" in trading because it enables you to remain level-headed in the face of market volatility, enhancing your ability to achieve consistent returns.

As you progress in your trading experience, remember that developing emotional discipline takes time and practice. Continue to emphasize this as a core aspect of your behavior, while staying patient with yourself. It's a continuous process of self-improvement that will make you a better trader.

1.8 Common Psychological Traps and How to Avoid Them

Building on the concept of emotional discipline in trading, it's equally important to understand and avoid common psychological traps that can hinder your decision-making and performance. In trading, being aware of these psychological traps and knowing how to avoid them is as essential as understanding market trends. Recognizing these common mental pitfalls can save you from costly mistakes and emotional stress.

1) Overconfidence

It's easy to become overconfident after a few successful trades, leading you to take greater risks or ignore warning signs. To avoid this trap, always stick to your trading plan and remember that past success doesn't guarantee future results.

For example – Imagine you've had several profitable trades in a row. Feeling invincible, you ignore your risk management rules and invest a larger portion of your capital in a risky trade. Unfortunately, the market moves against you, resulting in a significant loss. This example shows the danger of overconfidence and the importance of sticking to your risk management rules.

2) Confirmation Bias

Confirmation bias occurs when you seek information that confirms your beliefs, ignoring contradictory evidence. This can lead to poor decision-making. Counteract this by actively seeking diverse opinions and analyzing all relevant data, not just what supports your view.

For example – You buy a stock, convinced it will rise. You focus only on positive news and ignore negative reports, reinforcing your belief. When the stock unexpectedly drops, you're caught off guard. Seeking balanced information could have provided a more realistic view of the stock's potential.

3) Fear of Missing Out (FOMO)

FOMO can drive you to make impulsive trades based on others' actions or market hype, rather than solid analysis. Combat FOMO by adhering to your trading plan and reminding yourself that there will always be another opportunity.

For example – You see a stock rapidly rising and, fearing you'll miss out on profits, hastily buy it without proper research. The stock then corrects, and you face losses. Had you resisted the urge to follow the crowd, you could have avoided this trap.

4) Anchoring

Anchoring happens when you fixate on a specific price point, like the price you paid for a stock, and base your decisions around it. To avoid anchoring, focus on current market conditions and the stock's actual value, not just the price you paid.

For example – You buy a stock at \$50, and it drops to \$40. Instead of selling based on current analysis, you wait for it to return to \$50, which may never happen. Letting go of your initial purchase price helps you make more rational decisions.

5) Avoiding Psychological Traps

The key to avoiding these traps is self-awareness and sticking to a disciplined trading approach. Regularly review your trades, learn from your experiences, and remember that trading is a balance of skill, strategy, and psychological control.

In the next section, "The Importance of Rules and Systems," we will further explore how to create a structured approach to trading that helps minimize the impact of these psychological traps. Remember, successful trading isn't just about market knowledge; it's also about understanding and managing your own mental biases.

1.9 The Importance of Rules and Systems

Now that we've discussed emotional discipline and psychological traps, it's important to see how rules and systems can help you navigate these challenges in trading. This next section focuses on the vital role of establishing and adhering to a set of clear, well-defined rules and systems in your trading practice.

Rules and Systems in Trading

Rules and systems are your roadmap in the often-chaotic world of trading. They provide structure, guiding your decisions and helping you stay on course. A well-defined set of rules can prevent impulsive decisions driven by emotions like fear or greed.

A system is a structured approach of rules to stock trading. It involves specific steps for identifying trading opportunities, executing trades, and managing risks. By following a system, you create a repeatable process that removes guesswork and helps maintain consistency in your trading. Typically a trader follows one system at a time for each trading strategy.

For example, you would use one system of rules for the strategy of trend trading stocks, and another system for short term long calls (a type of options strategy). Traders usually stick with these systems for some time, slow to make any changes to

their rules.

Trading Plan

A trading plan is a written document outlining your trading strategy, goals, risk tolerance, and criteria for entering and exiting trades. Think of it as a contract with yourself, keeping you accountable and providing clarity in your decision-making process.

Imagine you're considering a trade. Instead of making a decision based on a gut feeling or market hype, you refer to your trading plan. It clearly states your criteria for entering a trade, such as specific technical indicators or market conditions. By following your plan, you make a disciplined, informed decision, reducing the likelihood of emotional or impulsive trading.

Consistency and Discipline

The most successful traders are those who consistently follow their rules and systems. It's not about winning every trade; it's about having a disciplined approach that leads to overall success. Rules and systems help you navigate the uncertainties of the market with a clear, focused strategy.

In addition to helping you navigate emotional challenges, the consistency provided by rules and systems enhances your learning process. Repetition of these structured practices not only builds your skills as a trader but also ingrains essential habits for long-term success in the market.

Adapting Your Rules and Systems

While it's important to stick to your rules, it's also good to review and adapt them as you gain experience and as market conditions change. This ensures that your approach remains relevant and effective. However, think of making such changes reluctantly. This is because if you make frequent changes, you may be experiencing emotions, effectively mitigating the benefits of having rules at all.

Remember that an important part of trading success lies not just in understanding the market but also in rigorously applying rules and systems like the GhosTrades 4-Step System and your personal trading plan. These tools are designed to help you make logical, well-thought-out decisions, steering you towards consistent and profitable trading outcomes. We'll now introduce you to this system.



Phantom-Facts!

Before electronic trading and modern trading systems, the New York Stock Exchange (NYSE) used a rules-based system called "open outcry" where traders shouted and used hand signals to buy and sell stocks on the trading floor. This chaotic and noisy method was the main form of trading even until recently in the late 20th century.

Lesson 6 – Introduction to the GhosTrades 4-Step System



Welcome to the GhosTrades 4-Step System, a set of rules designed to guide you through buying and profiting from stocks that are on an upward trajectory, lasting typically for several months. This system is structured to help you identify four things: what to buy, when to buy it, how much to buy, and when to sell it. These four steps are described in a set of rules called a Trading Plan comprising the following ideas. Remember, you'll learn the details of each throughout this course!



Step 1 – Watch List Criteria (WHAT to buy)

At the heart of the system are the Watch List Criteria. These rules help you pick out the right stocks to watch. You'll look for stocks that are not only trending upwards but also have enough people buying and selling them each day to make them easy to trade. They should also be reasonably priced and fundamentally strong—meaning the companies are in good financial health.



Step 2 – Entry Rules (WHEN to buy)

Next, we have the Entry Rules, which tell you exactly when it might be a good time to buy. You'll learn to spot potential buy signals, like when a special kind of chart arrow turns green, indicating a possible upward trend. Ideally, you want to buy when there's no immediate price ceiling that might stop the stock from growing, and if possible, when there's an increase in trading volume.

Step 3 – Money Management (HOW MUCH to buy)

Money Management is all about risk control—how much of your portfolio you're willing to risk on a single trade. We keep this tight to safeguard our trading accounts.

Step 4 – Exit Rules (WHERE to exit)

Exit Rules help you decide when to sell your stocks. A stop-loss order is a key tool here—it's set to automatically sell your stocks if the price drops to a certain point, ensuring you don't lose more than you're comfortable with if the stock's price starts to fall.

Routines

This system isn't just about rules. It's also about routines—daily and weekly habits that keep your trading on track. Each day or week, you'll adjust your stop-loss orders to protect your profits, as well as refine your watch list, practice your skills, and continue your trading education.

This is just a brief introduction to the GhosTrades 4-Step System. As you progress through the upcoming modules, each component of the system will become clearer,

and you'll understand exactly how each step helps you make informed and disciplined trading decisions.



Chart 4: An example of a potential Buy Signal using the GhosTrades 4-Step System. Notice the small green arrow at the bottom of the blue oval?

1.10 Module 1 Assignments

Assignments play a very helpful role in reinforcing what you've learned and applying it in practical scenarios. They not only deepen your understanding but also connect you with the broader learning community and inspire personal growth. Here are two assignments to kickstart your journey:



1) Introduce Yourself in the GhosTrades Community - Click the provided link to share a brief introduction about yourself in our community forum. Include your name, location, any previous market experience, your goals for learning active trading/investing, and anything else you'd like to share.

This is your first step towards engaging with fellow learners and GhosTrades staff, an important part of your learning experience.

<https://ghostrades.mn.co/about>



2) Begin reading 'The Richest Man in Babylon' – Follow the link to access and read 'The Richest Man in Babylon.' This classic book offers timeless financial wisdom, reinforcing the principles you've learned in this module and inspiring your journey in active trading and investing.

<https://drive.google.com/file/d/1B2Owl0bYN3oUiv-79OKa1aiFzy0TWcKY/view?usp=sharing>

Conclusion

Congratulations for finishing the first module!

In this module, we've laid a solid foundation on the essentials of stock market investing, covering the nuances of different trading strategies, the critical role of psychological discipline in trading, and an introduction to the strategic framework provided by the GhosTrades 4-Step System. Each lesson has been designed to provide you with the knowledge and skills necessary to navigate the complexities of the stock market. Understanding the differences between active and passive investing, mastering the psychological aspects of trading, and implementing a structured approach through the GhosTrades 4-Step System are important to making informed decisions and achieving long-term success in your active investments and trades.

Moving ahead, the next module shifts focus to fundamental analysis, delving into the important aspects of stock selection through an understanding of macroeconomics and individual company evaluations. You'll learn how to apply fundamental criteria rules within the GhosTrades 4-Step System, and how to conduct searches for stocks that meet these specific criteria. This will equip you with the skills to identify high-potential investment opportunities, ensuring your trading strategy is grounded in strong fundamental analysis of market and company fundamentals.