Small Winners – GOOD, Big Winners – BETTER, Small Losers – OK, Big Losers – NEVER!

Being Under-funded

Being under-funded is really tough when it comes to trading. While trading is a highly lucrative business it can also be an expensive business. Even at only $4.95 a trade the costs of trades can eat your lunch if you're not trading with enough money. If you are trading with less than $15,000 cash then you are considered under-funded, but don't despair, we are looking out for you and John has developed a strategy to help under-funded traders get to where they need to be.

As I mentioned, one of the main issues is the brokerage fees. If you are trading with $1000 (which would be the minimum amount you require to open a brokerage account) and you place a trade using 50% of your capital or $500, it will cost you $4.95. When you come out of that trade, it will cost you another $4.95. So the total amount of the trade was $9.90. This represents approximately 2% of the capital you put in. Therefore, every time you make the trade you will pay 2% of your capital to actually complete the trade. These amounts are payable if the trade is a winning trade or a losing trade.

As your capital increases, the effects of your brokerage fees decreases. If you are placing $10,000 on a single trade, that same $9.90 becomes approximately .01%, or really an amount that has no effect on your trade whatsoever.

So in our first example, you will need to achieve a minimum of a 2% gain in order to nullify the effects of the brokerage fees. In our second example, the stock barely has to twitch and the broker fees are nullified.

So what do you do if you are under-funded?

You have a few options you can utilize to help you get to a place where this is no longer a problem for you.

1) Don't trade too many companies
2) Use margin
3) Find some friends

Don't trade too many companies

The Volatility Value Trading System that John Bannan developed uses from 8 – 10 stocks during any given year. Those stocks are traded continuously throughout the year. John, as you can well expect, is trading with considerably more than $15,000 and trades all of the stocks in the list.

The trades he shows you in the DPR calculator are all the trades he is doing, he does not pick some and leave others. Trading in more than one company helps diversify your portfolio which is an important area of risk management, but when trading with limited capital you have to put some of the desire to fully diversify to one side in favor of actually being able to make a profit.

If you are under-funded, you should not trade all the companies John is trading. Instead, pick the appropriate number of companies from the chart and only trade those companies.

<$3000	2 companies
$3000 - $4999	3 companies
$5000 - $6999	4 companies
$7000 - $8999	5 companies
$9000 - $10,999	6 companies
$11,000 - $12,999	7 companies
$13,000 - $14,999	8 companies
$15,000 +	10 companies (or as many as there are on the list)

While this should apply no matter what you are trading and whether you follow John's trades or not, if you are following John's trades, the DPR Calculator allows you to enter how many companies you are trading and will calculate the number of shares appropriately to the amount of capital and how many companies you are trading.

An important note for trading with Volatility Value Trading: once you choose the companies you are going to trade we recommend that you stick to the company you have chosen until it disappears from the chart. If the company no longer appears in the chart then pick a new company, otherwise, keep trading the same company up or down. This is part of how the system makes the great returns it makes. There will be losing trades along the way, that's ok. Remember the mantra…

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Once your overall cash capital has increased to the next level, then go ahead and add a new company to your portfolio.

The obvious question you may be asking is, how do I know which companies to choose?! All the companies John picks are there for their merits. While no one can know what a stock will do in the future (see John's blog Game of Chess anyone? http://howdoitradestocks.com/game-of-chess-anyone/) and there is no such thing as a guarantee in this business, all the companies were chosen as good value trades using multiple fundamental and technical techniques. So the answer to your question of which ones to pick is – have a look at the different companies and choose the ones you like the best!

Using margin

If you have less than $15,000 we really do recommend the use of margin. After $15,000 we recommend it too, but it isn't as important to your portfolio to help with the minimization of brokerage fees.

What is margin?

Margin allows you to borrow money at very low rates from the brokerage. Think of it like a mortgage, where the security you are offering is the stocks themselves as oppose to a house as it would be in the case of a mortgage. In Canada we are allowed to borrow up to approximately $2 for every dollar we ourselves put in.

Like a mortgage, if you have $10,000 and you borrow $20,000 from the brokerage you will owe the brokerage $20,000 plus interest (which is extremely low). When you buy stocks you have the buying power of $30,000. Please note that I am using approximate figures for the sake of easy math.

So let's say you had $10,000 and decided to use full margin. The broker will lend you $20,000. You now have $30,000 of buying power.

You decide to buy 100 shares at $300 each ($30,000). Two days later you sold those shares for $315 each ($31,500). You pay the $20,000 back to the brokerage that you borrowed and you are left with approximately $1500 profit. (I'm leaving out the interest component for the sake of easy math because the amount is so small)

To do the same trade without margin you would only be able to purchase 33 shares at $300 each ($9,900). Two days later you sell those shares for $315 each ($10,395). Your total profit is $495.

In both cases you are using exactly the same capital of YOUR money, but your results are dramatically different for the trade.

Using margin also allows you to minimize your brokerage fee. Using the same example, your brokerage fees will be $9.90 to complete the full in and out of the trade. $9.90 of $1500 is a much smaller fee to pay than $9.90 of $495.

While we cannot tell you that you should or should not use margin, and obviously there are risks involved any time you borrow money, I always think people have the right to know that this option is available to them. You may want to also call your broker directly and ask them about margin and why you should or should not use it.

Keep in mind that John uses very tight Stop Losses on his trades to be sure that he never receives a "margin call", which is what happens if your stocks dip below the value of the amount of money you borrowed. John has never received a margin call. If you choose to follow what John is doing and put your stop losses in as he does, you should never have an issue.

The reason that people receive margin calls generally is because they do not follow strict risk management. Our experience shows that most traders do not use stop losses – which is terrifying to us. We have stop losses on everything. For more information about trades you can also check out this short video on our website.

http://youtu.be/lCQxRoo4BuE

You do have another option if you are underfunded:

Find other people to trade with. We know of at least one group of people who have pooled their resources to invest collectively thereby sharing the brokerage fees among them, capitalizing on the margin and using the compounding nature of the winning trades to really push them all forward a lot faster than any of them could have done it alone. This group has offices in the US and Canada. If you would like to know more information about this group contact Robert Keller of Synergy Investments. (AMI Business Solutions and www.HowDoITradeStocks.com have no ownership or interest in Synergy Investments and recommend that all persons do their own due diligence)

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We wish you amazing success with your future trading.

If you are interested in learning the ins and outs of Volatility Value Trading, John offers training courses. Check out the events page of the site http://howdoitradestocks.com/events/ for dates for upcoming training events.

May today be a profitable day…for all of us!

www.HowDoITradeStocks.com