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# *How to Get Started in*

# *Electronic Day Trading*

David S. Nassar

***Everything You Need to  
Know to Play Wall Street's  
Hottest Game!***

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# ***How to Get Started in Electronic Day Trading***

David S. Nassar

**McGraw-Hill**

New York San Francisco Washington, D.C. Auckland Bogotá  
Caracas Lisbon London Madrid Mexico City Milan  
Montreal New Delhi San Juan Singapore  
Sydney Tokyo Toronto

**Library of Congress Catalog-in-Publication Data**

Nassar, David S.

How to get started in electronic day trading :  
everything you need to know to play Wall Street's hottest  
game / David S. Nassar.

New York : McGraw-Hill, 1999.

p. cm.

HG4515.95

0071345663

Electronic trading of securities.

Stocks — Data processing.

98040807

**McGraw-Hill**

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3 4 5 6 7 8 9 0 DOC/DOC 0 9 8 7 6 (PB)

0-07-138049-3 (PB)

0-07-134566-3 (HC)

Printed and bound by R.R. Donnelley & Sons Company.

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miums and sales promotions, or for use in corporate training programs. For  
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imum of 50% recycled de-inked fiber.

To my sons, Zachary and Weston, the real future of trading!

# INTRODUCTION

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A tsunami—spawned by technological breakthroughs, new regulations, more savvy individual traders, and even the Crash of '87—is striking the securities industry. A 23-foot wave of virtual water moving at 186,300 miles per second is flooding the innermost sanctums of Wall Street even as you read this book. Until very recently, direct electronic access to the exchanges was taboo, and the gates of Wall Street were closed to the public. For over 200 years of the stock market's history, industry professionals have been a very esoteric club. Now the markets open are for the execution of orders sent directly to them by traders sitting in front of their personal computers anywhere in the world. You can surf the crest of this virtual wave—any time you want from any Internet access point on the planet!

It is open season on Wall Street. Point to a stock on your computer screen, click your mouse, and seconds later you have bought or sold that stock. It is that fast, easy, and efficient. If you have a passion for the market and are not already utilizing the technology and strategies available to access it directly, this book will show you how.

For the first time ever, you can trade directly with the specialists of the New York Stock Exchange and NASDAQ market makers. The most important word is *directly*. No telephone calls to your broker. No waiting for a trader's wire. No lost time as your broker relays your orders to the firm's order desk. No delay as the order desk moves your orders to the trading floor or a stock wholesaler. No "paid-for order flow." No delay getting your fills, or executions. You shortcut the entire process by firing your orders *directly*:

Point . . . Click . . . Buy!

Point . . . Click . . . Sell!

This isn't the on-line trading many of the large retail and discount brokers have been making noise about lately. All they provide is a glorified e-mail service. You send their trade rooms something similar to an e-mail message, telling them how many shares you want to buy or sell. They in turn handle your orders as if you telephoned them in, just as it has been done for decades.

Worse yet, many sell your order to a broker's broker to fill, a practice known as "paid-for order flow." A broker's broker is a security wholesaler who buys your orders from your broker, along with hundreds of thousands of other orders and matches them up. Your buy completes someone else's sell. There is nothing illegal about this practice, except that you do not always get the best price possible. The broker's brokers, or security wholesalers, earn the spread between your order and the one it is matched with. The spread could be an eighth of a point or more and that is not acceptable in today's efficient stock market, especially for short-term strategies. Electronic direct access trading (E-DAT) allows you to buy and sell at the best prices the market has to offer.

When you trade with an on-line system, you may think that you are getting a good deal because your commission is less than \$20. But if you pay an unnecessary spread, an eighth of a point costs you an additional \$125 on a thousand-share trade. Therefore, you actually paid \$145, with the commission and spread, or an extra \$32.50 on a hundred lot. Your brokerage firm receives perhaps a penny and a half a share for selling your orders. They charged you \$20 and are paid \$15 from the broker's broker (1000 shares  $\times$  \$0.015). To avoid being known as a firm that takes payment for orders, some discounters have bought their wholesaler, but the order's path is the same. And so is the result for the trader—higher buys and lower sells. Routing your orders directly through an E-DAT system via various execution mediums can save you money on those spreads!

## **PROFIT ON A "TEENIE" . . . REALLY?**

E-DAT allows you to bypass all the middlepeople and route your orders to the exchange using several different order-entry systems.

This book will teach you how to use these systems. You will be able to profit on moves as small as one-sixteenth, referred to as a *teenie* or a *steenth* in the industry. A *teenie* is all of six and one-quarter cents per share. This book will teach you how deep discount commissions, new rules, and technology will make E-DAT the future of trading! Learn to:

- Route your orders **directly** to the specialists on the New York Stock Exchange
- Pick off buys and sells **directly** from the market makers
- Get fills in as little as one second
- Unlock markets Wall Street has made inaccessible to you until recently
- Tap into information previously not available to anyone outside the securities industry
- Make money on teenies on 1000-share lots, and
- Execute lightning-fast, low-cost trades with professional trading systems

There has not been an opportunity like this for the average person to trade stocks since the last century. Those were the days of Jesse Livermore, often renowned as the greatest stock speculator ever. There were trading offices on every corner and even in the lobbies of most hotels. You could walk into establishments referred to as “bucket shops,” place orders on margin, and get fills immediately, using the price right off the telegraph’s ticker tape. Only recently have individual traders begun to see fast fills and low commissions like those. The irony of market accessibility of the past and technology of today can be credited to the NASDAQ.

NASDAQ was the first “screen-based market.” Through technology and computers, it paved the way for other electronic systems, such as the Electronic Communication Networks (ECNs), SOES, SelectNet, and the order-routing system of the NYSE, SuperDot. All of this will be explained in detail in this book. Without these systems, individual traders would not be able to trade **directly** via the Internet or any other means. Fortress Wall Street would still command the trading floors. NASDAQ is the greatest breakthrough in the last two

centuries for individual traders. As revolutionary as NASDAQ is, new systems are still coming on-line. One such screen-based system is OptiMark, which has the potential to challenge the dominance of even the New York Stock Exchange. More on this later.

Many times problems become opportunity, and the “crash of ’87” was the next big break for Electronic Direct Access Trading. The Dow Jones Industrial Average was hammered down more than 500 points on October 19, 1987. Customers could not get through to their brokers. Brokerage phones rang off their hooks. The day seemed as if it would never end—panic and fear ruled the day. The very next day, opportunists swept in from Wall Street to take fast profits. They cashed in, big time!

The combination of these events and others helped change the landscape of the NASDAQ, through changes made by the Justice Department and the SEC. Systems already in place, giving individual traders direct access to the markets, became mandatory. New rules were instituted to bring the public and the professionals into equilibrium. Now you have the same opportunity as the professional trading community. All these reforms took place just as the securities industry and individual traders embraced the technological innovations that had been around for years. It all came together. NASDAQ, the Internet, 56K modems, satellites, Electronic Communications Networks, E-DAT schools—all the pieces of the puzzle fell in place. In this book you will learn how to marry these technological marvels with proven trading strategies that will change the way people trade and invest forever! Welcome to the “Bleeding Edge!”

## **THE ELECTRONIC DAY TRADER IS BORN!**

First, let me define what day trading really is. Day trading is not necessarily trading every day as much as it is being in “tune” with the market every day. One of many approaches to take advantage of these new rules and technology is known as *electronic scalping*.

Traditional scalpers are traders who buy and sell rapidly for their own account, taking small profits and limiting losses, holding



positions for very short periods of time. Scalpers generally trade “heavy,” meaning a high number of shares for small, incremental profits per trade. Typically, scalpers stand ready to buy at a fraction below the last transaction price and sell at a fraction above the next, harnessing small tidy little profits throughout a trading day. In short, they hit base hits, not home runs.

Until now, it has been almost impossible for anyone to compete and trade with the NASDAQ market makers as a scalper because of market barriers, such as rules, technology, and high commissions. That has all changed with the advent of electronic direct access trading. Done properly by traders with the right equipment and training, it is a way of taking a considerable amount of profit from the market. For example, you buy 1000 shares of a stock and hold it for a minute or two. If it can be sold for a 1/4-point above what you paid, or even less, you take fast profit (less commissions).

Do that successfully every trading day and you begin to wonder why you waited until now to start. E-DAT scalpers can be full- or part-timers. Some do it professionally and others just to supplement their current income. The new rules, new technology, and deep discount commissions available today make E-DAT scalping a very real opportunity for the serious trader or investor.

You do not have to be an E-DAT scalper to enjoy the opportunities offered by this new revolution in trading. There is a whole spectrum of different types of electronic traders, such as day traders, who hold positions for a few minutes to a few hours; swing traders who hold positions one to five days, and many hybrids of these methods. In fact, there seem to be as many styles of trading as there are personalities. Traditional “buy ‘n’ hold” investors also use this type of trading, because they understand how it gets them the very best price whenever they buy or sell. They can trade through E-DAT brokers, account executives trained in electronic direct access trading. These brokers trade directly on E-DAT systems to shave spreads for customers. But don’t try to find these brokers at traditional retail brokerage houses. They know how to shave an eighth or a quarter of a point off for their customers. They offer deep discount commissions and help you save on the spread. By the time you finish this

book, you will know how to do this yourself or at least know enough to look for a brokerage firm with proficient E-DAT brokers.

Before you quit your day job, read this book carefully. You'll learn all you need to know to decide if you are mentally and psychologically suited for electronic trading. Not everyone is, although just about anyone who invests in the stock market can benefit by using E-DAT. Jessie Livermore probably stated it best back in 1923: "The game of speculation is the most uniformly fascinating game in the world. But it is not a game for the stupid, the mentally lazy, the man [or woman] of inferior emotional balance, nor for the get-rich-quick adventurer. They will die poor."

## **STRUCTURE OF THIS BOOK**

The text is divided into three main parts. Chapters 1 through 5 cover all the key areas you must become familiar with to successfully trade electronically. For example, you will learn the secrets of the exchanges, all about the electronic order execution systems and how to use them, the special rules governing electronic trading, which indexes can be used as leading price indicators, and how to get an edge with technical analysis. Most importantly, you will come to understand just how NASDAQ market makers think, so you can anticipate how they trade. Once you can do that, you can run with these market movers and enjoy the profits the market has to offer rather than being stamped by them.

The next section, Chapters 6 through 10, puts you in the middle of the fray. You will define your trading style and time horizon of trading. Trading styles are as different as people. This section will help you define what kind of trader you will become. Your time horizon can be anywhere from a few minutes to a few days. I will then teach you several of the most reliable trading strategies known to E-DAT traders. There are trading opportunities that are predictable days

and sometimes weeks in advance and others that just come at you without warning. With hard work you will begin to see these trends.

The book concludes with an overview of the mechanics of setting up an electronic stock trading account and a grand finale of the best, most useful, advice I have learned about E-DAT trading over the years I have been trading and teaching others. If you can learn from others' mistakes, this section can save you thousands of dollars, by showing you how not to lose your money: the first lesson to successful trading no matter how or where you trade.

I also recommend that you peruse the Afterword and the Appendixes. The Afterword provides my insights into the ever-changing electronic trading world. The future is very bright. A new trading platform, called OptiMark, may well become the ultimate electronic specialist or market maker—providing price improvement for average traders. This system has the potential to offer you a far better trading field than the average trader has ever had access to. It is difficult to say just how lucky we all are to be trading at this particular time in history. Last of all are the Appendixes, which are packed with helpful reference material.

That's the book in a nutshell. Reading it is like reaching for your mouse and opening a window on the World Wide Web. One click leads to another and before you know it you will be prepared to take advantage of the incredible opportunities you have as an Electronic Direct Access Trader.

# W E L C O M E

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Electronic Direct Access Trading (E-DAT), while new to the landscape of the market, is really nothing more than a technological improvement on trading styles and disciplines enjoyed by professional traders for years. The E-DAT today will implement psychology, human nature, and common sense to trade not too much unlike the professional trader from years ago.

On the other hand, the technology available today is so innovative that most still do not understand the differences between on-line trading and the true Electronic Direct Access Trading Industry. Never before has the public had the keys to the gate of the most fascinating financial institution in the world, the U.S. STOCK MARKET!

Thanks to “bleeding edge” computer technology, you now have those keys to unlock the gate to the professional trading market. From your home computer you can interface directly to the NASDAQ, NYSE, and other exchanges, to create a virtual market in cyberspace. “Screen Based Markets” such as the NASDAQ have made way for mediums to view the market tick for tick, trade for trade, in real time. Real-time executions allow you to act on this direct information with the press of a mouse or keyboard. This level of technology has attracted an unprecedented number of traders and investors to the market, and research has proven that this industry is still an infant. Yet unfortunately, many will become victims of the markets because the education, knowledge, and skills to act with confidence are often missing.

I hope that you see this book as a step to change that. We are all students of this industry regardless of our skill or experience. In fact, there are two kinds of traders: the ones who admit they lose trades, and then the ones who are liars. All traders lose trades; it’s part of the profession, just like a good quarterback throwing inter-

ceptions. The champions just don't let the turnovers defeat them or their attitudes; and herein lies the secret to trading. Developing a positive attitude and overcoming fear is the real art, and you will learn how!

The discipline you develop along with proven trading strategies in this book using "Real Time" data is the winning combination necessary to play in Wall Street's hottest game. This powerful system will allow you to access the exchanges directly without anyone ever touching your order. When *you* point and *you* click, *you* own! That fast. That quick. That powerful.

Electronic trading could be compared to law or medicine in that many disciplines and strategies are available, but specializing in just a few is all it takes; a new doctor or attorney will specialize. The market is certainly dynamic, but with your passion and willingness to learn everyday, you too can have the power and technology to interact with the most vibrant profit generator on the planet!

David S. Nassar

# ACKNOWLEDGMENTS

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I would like to thank Stephen Isaacs of McGraw-Hill Professional Publishing for giving me the opportunity to write this book. I also want to thank Kevin Ward for his market insights and Jason Turnipseed for his exceptional effort every day! Thank you, Tom McCafferty, for all your hard work on this book.

Thanks to Dr. Jack Bauersachs for his thoughts from the academic perspective and to Mark Marone and Robin Peterson for their support and friendship.

Thank you, Myron Klingensmith, for teaching our E-DAT Trading Courses like the true professional you are. My thanks to Stan Yan, a fellow trader and artist, who did an outstanding job creating the illustrations.

To Gabbriel E. Nassar, Sr., and Glenna A. Nassar, two people I am proud to call my parents.

And finally, the most special thanks to my family, my wife, Tracy, and my sons, Zachary and Weston, for their patience and support during the busy time of writing this book.

# DISCLAIMER

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