

How to find potential stocks for short term trading

Question to Kerry Lovvorn, co-director of Spike Trade company:

What are the best sources that you would recommend to find potentials stock candidates for short term and/or Daytrading

For day trading stocks you want to look for stocks that can move intraday. Attempting to trading a stock that only moves .10 cents in a days' time is difficult to trade for a meaningful profit. I prefer to day trade stocks with a high Average True Range. This is the average a stock moves in a day. If your trading skills are good and you can manage to trade 30% - 50% of a move, to make .50 cents on a trade you need a stock that moves at least \$1 per day. I also like to measure a stock movement by looking for the ATR percentage of price. This is the ATR divided by price. For example if stock "A" has moves on average \$1 and the stock is a \$20 stock, the percent ATR is 5%. If the stock "B" moves on average \$1 but is \$100 stock it has a percent ATR of 1%. I would prefer to trade stock "A". I want to find stocks with good movement based on ATR and percent of ATR. This allows me to make sure I am trading stocks that can give me opportunity to capture a move during the day.

I like to think of percent ATR as the speed-o-meter of a car. The higher the percent ATR the faster the car. Driving fast is great when you are on the winning side but it also cuts deep when on the losing side. If you are have difficulty with your win rate consistency pick slower moving stocks until you find a winning track record. After you have gaining a winning edge than look for a faster car to drive.

The other criteria I look for is a good volume. More volume the better. Most good day trading candidates should trade heavy volume thru out the day. Be careful trading high ATR percentage stocks on low volume.

Most platforms can scan for ATR and volume. Percent of ATR may have to be calculated manually. I use a customized indicator for TradeStation that gives me the percent ATR.

To summarize, good volume at least more than 1 million per day, more is better. depending on your trading skills look for larger ATR ranges with higher percent ATR of price.

My personal scan I like to use the following.

1. over 2 million shares per day
2. over \$1 ATR (i use a 21 day average for the setting of the ATR)
3. a minimum of 3% ATR

Kerry Lovvorn