

The Best Small Account Strategy for Exponential Gains



The best small account strategy for exponential growth. Sounds promising doesn't it? Most of us are in this same boat, wanting to grow what little we have into untold millions. But how to do it?

Growing a small account may sound unattainable, daunting at best, but the truth is that it isn't as hard as it seems. Granted, you and your personality may or may not be suited to this strategy – or trading in general. And we've discussed [the pitfalls associated with trading](#), which no one is immune to.

But bar any catastrophic setbacks, and with access to quality training, **there is a way to grow a small account predictably, safely, and responsibly – and rather quickly – all things considered.**

In this post, we'll tell you exactly what you have to do.

How Small is a Small Account

First, realizing that your small account may not be as small as someone else's, let's find a baseline with which we can start.

It doesn't take a lot of money to get started. Most brokerages are willing to let you get started with as little as \$250-\$500. Much of this will depend on how much you have saved and how much you are willing to risk. To that end, \$5000 may be small to you. \$15000 may be small to others.

For the purpose of this strategy, it doesn't really matter what you're starting with. However, we're going to assume the low starting point of \$400 in capital.

The PDT Rule's Effect on Growing Small Accounts

Since the inception of the Pattern Day Trading rule, growing a small account beyond \$25,000 has become more difficult. Or, so most assume.

The assumption is that the limitation of only 3 day trades in any 5 day period is going to limit your ability to grow an account quickly.

This couldn't be further from the truth.

Yes, it is true that you're limited to the amount of trades you can make, but rest assured that doesn't necessarily correlate to slower profitability. We would argue the opposite.

Over-trading vs. Over-risking

Along the same lines, many newer traders take on riskier positions because they don't want to "burn up" the few trades

they do have. In essence, **day traders turn into swing traders, and can easily become “bag holders” thinking that their positions will rebound in their favor.**

For obvious reasons, this isn't disciplined, nor is it systematic. It can also lead to catastrophic losses for a small account.

Offshore Accounts for Growing Small Accounts

There are ways to get around the PDT rule so that you can trade more frequently.

Some brokerages like [CMEG out of Trinidad](#) will allow US customers to trade with as little as \$350. However, the commissions rack up quickly, and the temptation to trade more is ever present.

A second option, if you have enough money, is to split your funds between brokerage houses so that you double the amount of trades you can take. Your trading capital is divided, but you can typically trade at least one trade per day with different accounts. Simply toggle between accounts each day if you're afraid of “missing” a day.

Regardless, if you decide to do either of these, having the discipline to only trade this one small account strategy might be the difference between blowing up or growing your account.

Why More Trading Doesn't Equate to Faster Profits

Herein lies the dilemma with most traders. The assumption that more trades equals more profits is almost always misguided. Yet, the temptation to over-trade looms large in the minds and hearts of newer traders.

It's only natural. **We're wired to believe that more work produces more results.**

The reason this is so counterintuitive is that it requires focus and attention to the minute details of a specific strategy to find an edge with it.

As Bruce Lee once said,

"I fear not the man who has practiced 10,000 kicks once. I fear the man who has practiced one kick 10,000 times."

Bruce Lee

So it is in the markets. You can't pet all the babies and expect to nurture a small account. It takes focus, depth of research, and intimate knowledge of a strategy to create a consistent path to profits.

More directly, it requires a deep respect for the probabilities associated with low risk and higher reward. **And you must have an edge that is predictable and repeatable.**

The longer you avoid this, the longer your path to consistency will take.

The Long Strategy to Grow a Small Account

Without further adieu, let's reveal the strategy.

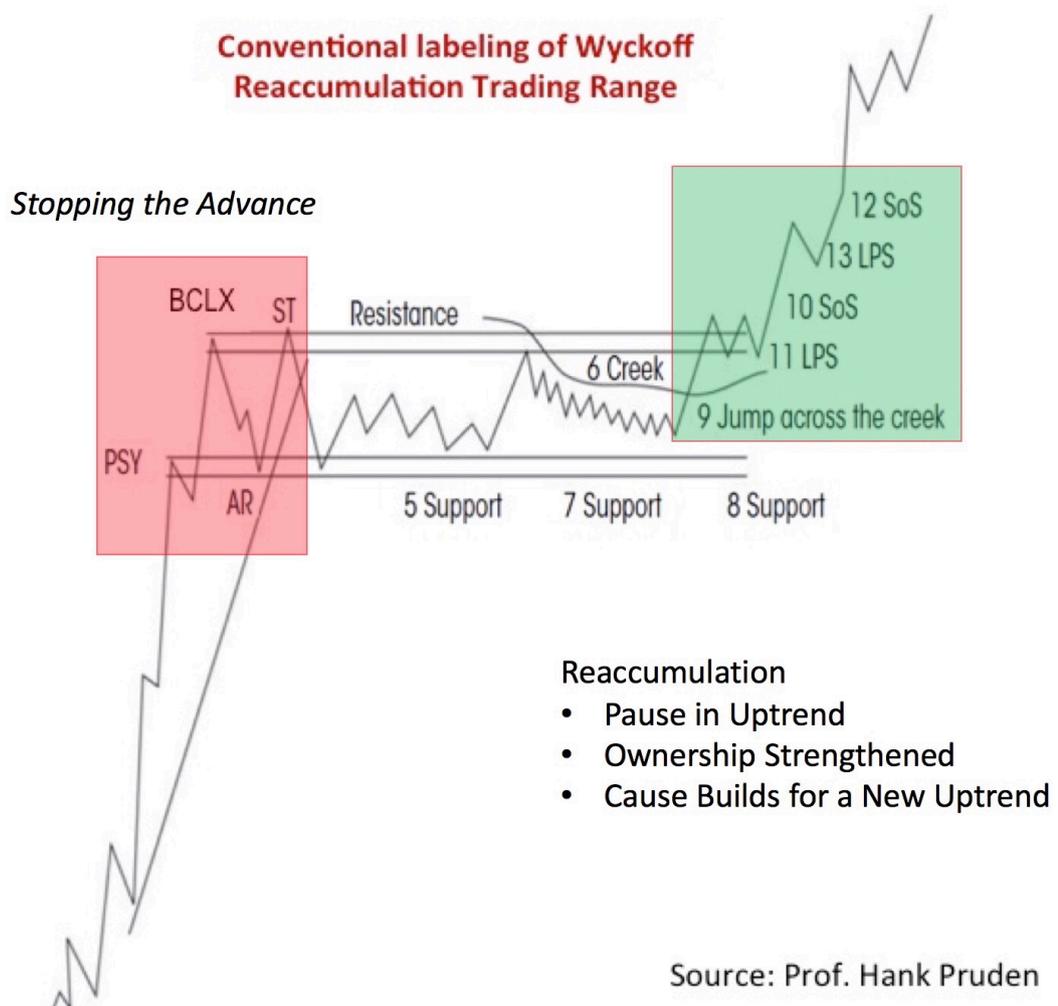
It's no secret, really. But it's known by a few different names. You may have heard of [the ABCD pattern](#) taught by InvestorsUndeground.com. Or, perhaps you've heard of the [Volatility Contraction Pattern](#) (VCP) popularized by Mark Minervini?

If you want to go waaaaay back, it's nothing more than the

[Wyckoff Wave Pattern](#) discovered by Richard D. Wyckoff in the early 1900s. It's been around for over a century. Perhaps longer.

And the great thing about this pattern is that it has never stopped repeating itself in the markets. You can find it everyday, on just about any time frame.

Here's what it looks like:



Wyckoff Wave Reaccumulation

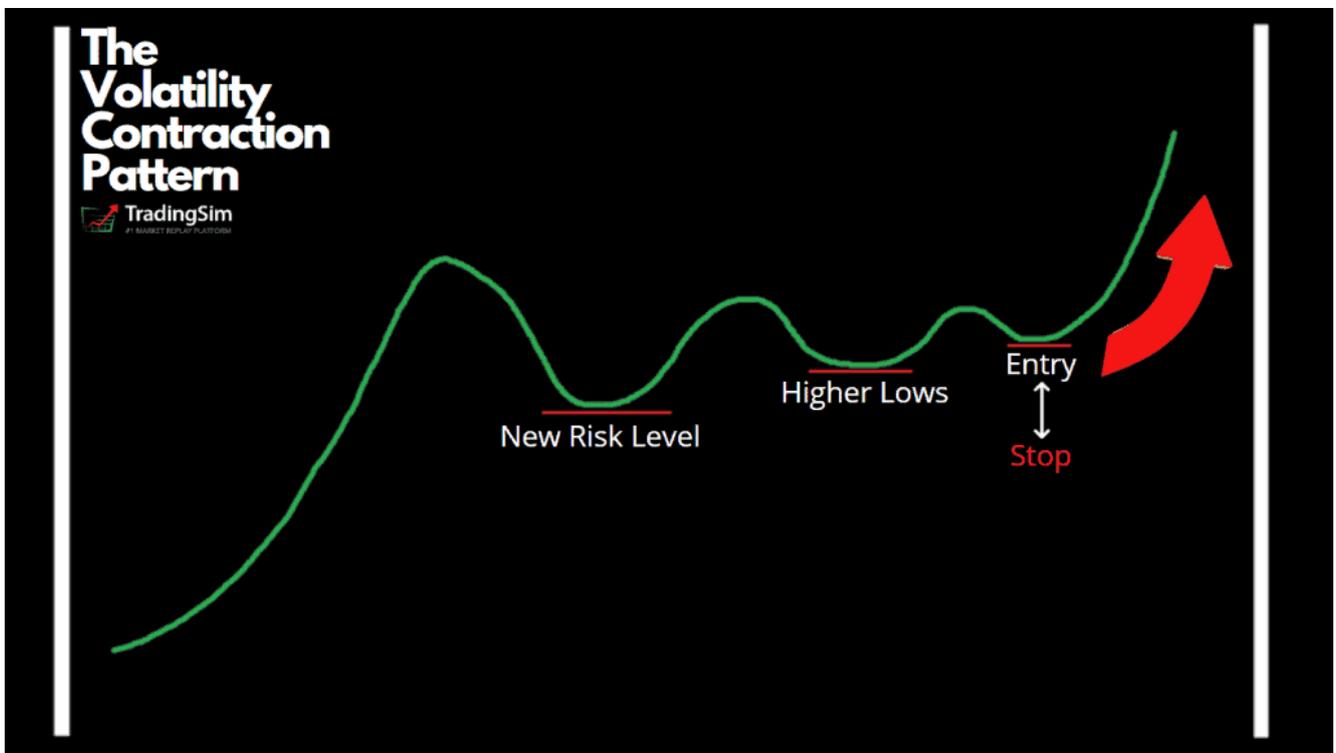
In this chart, there are quite a few annotations, and they are all important. We'll expand on these in just a moment to explain the details of supply and demand.

Why this Pattern is Such a Good

Small Account Strategy

The reason why this pattern is such a great strategy, and especially for beginners, is that it accomplishes four things:

1. There is no second guessing where your risk will be set.
2. It is easily recognizable.
3. Entry criteria and trade management are clear.
4. Gains are often exponential compared to your risk.



Notice that we didn't say, "It works 100% of the time!" As with any strategy, there are always caveats to consider, and you will never win 100% of the time.

Nonetheless, the reward to risk ratio associated with this strategy is very favorable. What this means is that you can have a low win rate, yet still maintain a positive equity curve because your risk very low.

Moreso, if you are trying to grow a small account, you cannot afford trades with undefinable risk levels. For example,

trying to “time the top” or “time the bottom” is gambling with your account. This small account strategy **reduces those headaches because it gives you defined support and resistance that you can risk off of.**

The Story Being Told by the Wyckoff Wave Pattern (ABCD/VCP)

Let’s dig into the theory behind the strategy.

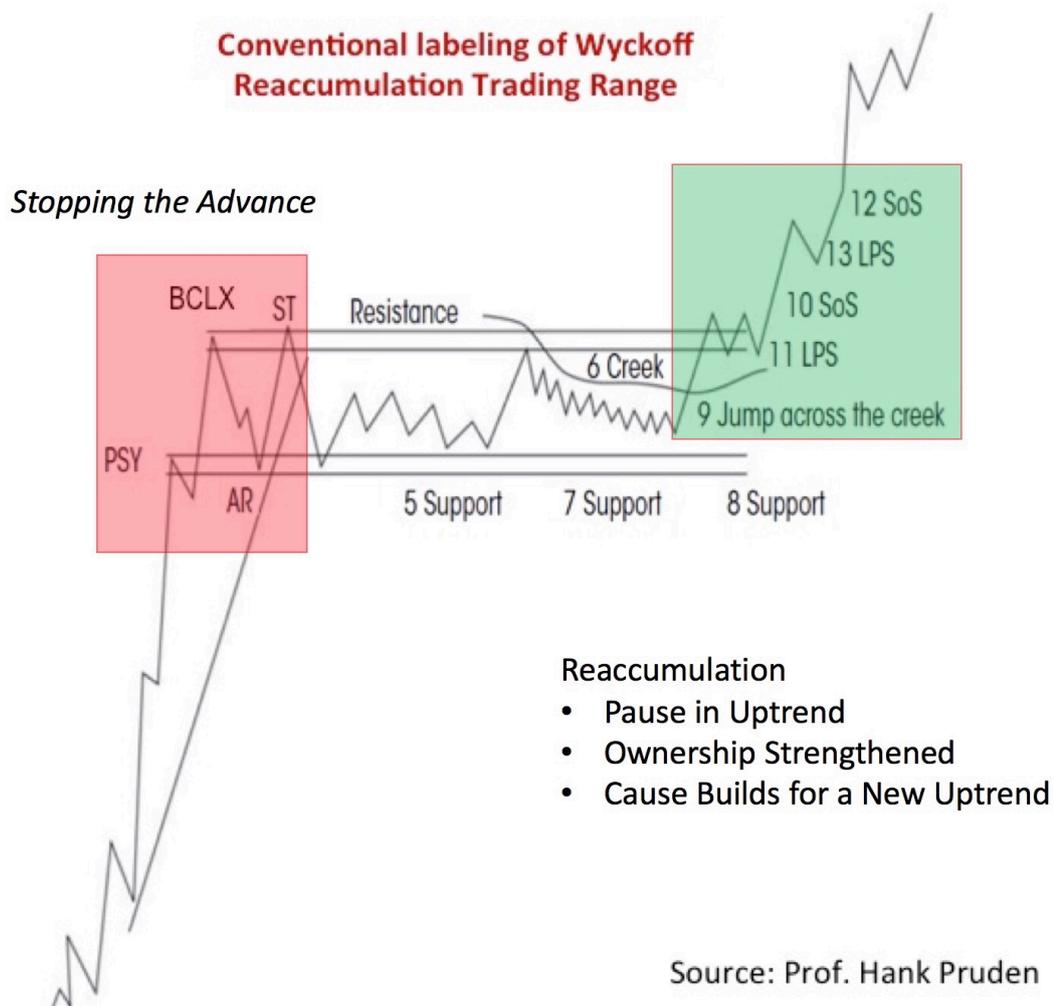
It can be scary, on the surface. And the reason why it is scary is for two reasons:

- It typically develops after a considerable run, which most traders are afraid is an overextension.
- When occurring as a bottoming pattern, traders are hesitant that the stock will have the capacity to rally.

These fall into the category of either “buy high and sell higher” or “a bull market climbs a wall of worry.” Both are valid for this strategy.

As the old saying goes, “No price is too low for a bear or too high for a bull.”

Look once again at the diagram of the strategy. This time, let’s discuss each component in detail.



Wyckoff Wave Reaccumulation

Stopping the Advance

Notice that this is very similar to a flag pattern. More often than not, the ABCD pattern presents as a consolidation after a prior run.

Within this run, near the top, we see Preliminary Supply (PSY) enter the market as the upward thrusts become weaker. This is where institutions and “strong hands” begin taking profits. Weak handed retailers with FOMO are chasing the stock as it has become extended, giving strong hands the ability to offload some of their inventory.

Eventually, this leads us to a Buying Climax (BCLX) followed by two reactions: an Automatic Rally (AR) from dip buyers and short scalpers taking covers, and a Secondary Test (ST) of the

Buying Climax to see if there is enough demand to carry higher.

At this point, you've got two tales of the tape playing out. On the one hand, strong hands are selling into weak hands at the BCLX as they chase the stock out of FOMO. You've also got short-biased traders trying to time the top and taking their positions here.



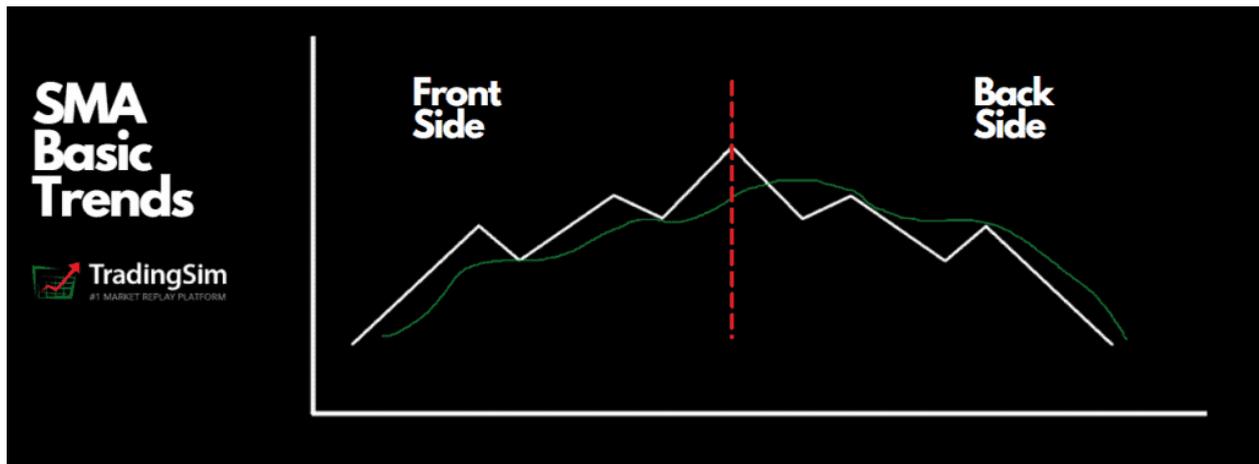
The idea is that the stock is extended, so the immediate supply stops the upward progress. The big question, though, is whether or not this supply is strong enough to carry the stock down, or if it will find support.

The Pause

As the upward momentum pauses, you want to identify the support and resistance areas being formed in the sideways movement. As you can see in the above diagram, this often leads to a series of higher lows after the initial pullback.

This can often times be confused with the "[back side](#)" of a stock waiting to fall lower. The differences are usually very

subtle.



Here's the difference:

Within a re-accumulation pattern, you begin to see a series of higher lows on reduced volatility. In other words, the price action becomes tighter and tighter into the right-hand side of the pattern denoted by the "Creek" in the image.

The Creek is essentially the trend line from the prior high sloping downward across the top.

This is usually accompanied by decreasing volume. In other words, **the initial shorts and sellers are now realizing that they may have been the only sellers showing up at the party.** Supply is drying up. Dr. Chris Kacher calls this [Volume Dry Up \(VDU\)](#).

The Re-accumulation and Launch

Once sellers realize there is a lack of follow-through, their covers typically push the price of the stock higher on what Gil Morales calls [Pocket Pivots](#).

As shorts continue to re-add to their position on the pops, they are eventually squeezed as demand absorbs the selling pressure and the stock "jumps across the creek" and pushes to new highs.

A few retests of the upper resistance area provide a Last Point of Supply (LPS). With demand strong the stock will usually push higher on ever increasing volume as a Sign of Strength (SOS) that demand is compounding with the covers of shorts and the buying power of breakout buyers.

Where to Enter the Small Account Strategy

The entry for the Volatility Contraction Pattern follows these criteria:

- Wait for at least one higher low after the initial pullback
- Identify price contraction and volume dry up near the 20 moving average on the lower time frames
- The more pocket pivots up and through the moving averages or VWAP, the better
- Take a position as the stock completes a second, or third higher low with constructive pocket pivots
- Or, initiate a position on the trend line break as the stock "Crosses the River"

Here's an example for you:



Small account strategy with pocket pivots and vdu

Where to Put Stop Loss

A stop can be placed below the low of the first pullback, or any of the consecutive lower highs, depending on your appetite for risk.

Using the example of NTEC above, here is what your risk to reward would look like:



Small account strategy with stop and gain

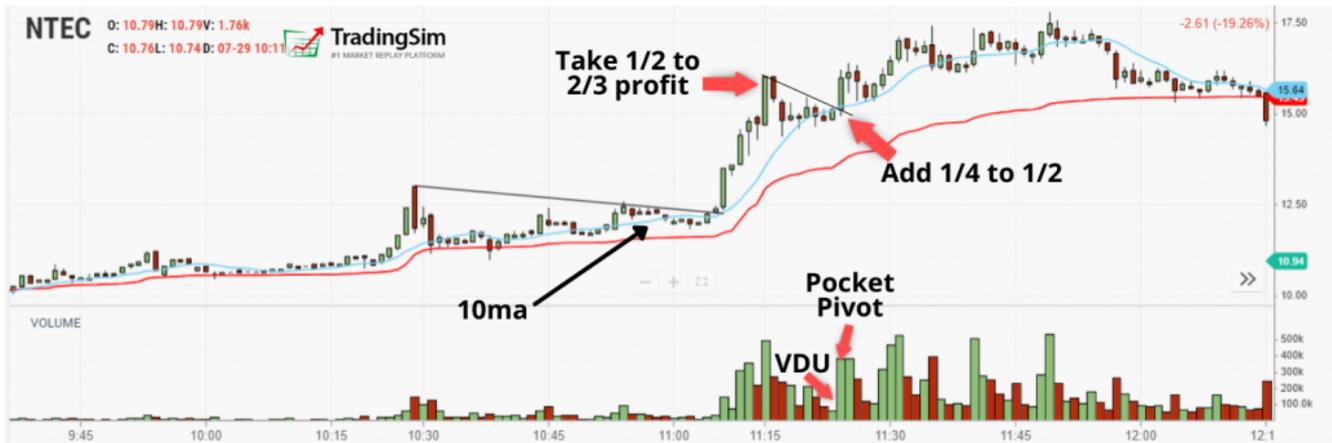
There may be times when the stock tests the first low, so be aware this could be a shakeout.

We recommend identifying your stop out area and calculating share size for your entry based on a loss at this area of only 1 or 2% of your account size.

Adding to the Position

If the Last Point of Supply is constructive on top of the prior high, it can be a logical add-on buy as the stock prepares to move higher. Consider keeping your adds a smaller portion of your initial position to keep your average cost lower than the pullback.

Other potential add-on opportunities occur on pullbacks to the 10 or 20 moving average of the 1, 2, 3, or [5 minute charts](#). It will be up to you to determine which time frame is the “control” based on conformity to the trend and price action.



NTEC selling and buying around a core

VDU and Pocket Pivots originating from these moving averages can occur along the upward move and offer great buy-in points along the way.

When to Take Profits in the Small Account Strategy

In short, this is discretionary. It depends a lot on how the stock is performing. With enough time, you'll be able to identify how strong the breakout is by reading the volume and price action.

The stronger the force behind the stock, the more expansion it can have. A lot of this may depend upon the amount of shorts that are stuck in the stock.

As a general rule of thumb, the more supply generated and overcome, the better. Think of it like trying to hold a beach ball under water. With the right conditions, as soon as you release the downward force, the upward momentum can be violent.

To understand some of the longer time frame forces that can offer such opportunities, be sure to study our post on [VWAP Boulevard](#) and pay close attention to the "long" side of the strategy.

That being said, we'll discuss a few ways to manage your

position.

Paying Yourself Along the Way

It never hurts to take profits with the small account strategy. Growing a small account can be nerve racking.

Partialing is a great way to pay yourself at key points along the way. This can build your confidence in the trade knowing that it isn't going to be a loser, no matter what.

To that end, you might consider taking a quarter, or smaller portion, of the position as the stock breaks to new highs.

After taking a partial move your stop to break even. Not all breakouts persist. By doing this, you have a win-win situation. If the stock consolidates again, you might add back what you took off and trade around a core position.

Just be sure not to add too much as you continue higher so as to become "top heavy" and risk stopping out on a shake out.

Selling into Climactic Action

As a rule of thumb, any time a stock goes parabolic or extends itself extraordinarily from the moving averages or a healthy trend, it is wise to lock in profits.

Many times this can signal exhaustion and an ensuing reversal. That being said, if the upward momentum is strong, it may be worth while to hold your core position.

Consider taking half or 3/4 of a position into any climactic run. Then, look for another consolidation to build into another trade with your remaining shares.

Qualify the nature of the stock in it's first consolidation, which perked your interest. It is likely that you'll get another Automatic Rally and Secondary Test followed by either a push higher, or weakness.

This may give you plenty of time to decide what to do with your remaining shares. Hopefully it will setup a second opportunity for your small account.

However, if you sense the momentum and trend shifting, it may be time to lock in your gains and move on.



Using Margin to Grow Your Small Account

We don't recommend this for the small account strategy.

Margin is a two-edged sword. When used irresponsibly, it can do incredible damage to your account.

We recommend only using the buying power you have in your account without margin. You need to earn the ability to add small amounts of leverage at key points. Ideally, once you are clearly in the money.

Trading is a number game. The account will grow as you master the strategy and manage risk properly. Margin complicates this process and may set you back.

Can this Small Account Strategy

Apply to Other Instruments

Absolutely. The beauty of this pattern is that it works on any time frame and any instrument: forex, futures, crypto, stocks, etc.

The laws of supply and demand are universal in markets. Here is an example of a beautiful volatility contraction pattern formed in the S&P 500 futures recently. Notice the higher lows denoted by arrows and the contraction on lower volume right before the expansion circled on the chart.



Granted, not all instruments will behave with the same character with regard to price and volume. But the nature of the pattern remains constant to the discerning eye.

Back-testing Your Small Account Strategy

You may be wondering, “Well, why should we take your word for it that this strategy works?”

That is a fantastic question. **You shouldn't.** You shouldn't take anyone's word for it, really.

But we do challenge you to try the strategy in the simulator and take as many trades as you can to determine what criteria works for you. You may find that a certain time of day lends a better success rate. Perhaps it will work best with a certain float size, or market cap, or daily resistance, or short % of float.

That's the beauty of testing your strategy so that you narrow your focus to what, when, and how it works best.

Some Criteria to Get Started

Along those lines, we suggest starting with stocks that have momentum. This is the easiest way to spot great candidates.

In the sim, replay each day using the % Gain, or \$ Gain, or Top Volume scans until you understand how to narrow your scans in the filter. As the day plays on, toggle through some of the top gainers looking for contraction patterns to form.



Market Scanner Pane

Once you've spotted enough of these, you might look for washout longs on the % Loss or \$ Loss scan. Both can create the same pattern. Again, it's all about the loss of supply and a continuation move higher.

We all recommend bookmarking your trades or taking screenshots of them. Categorize them according to varying criteria like time of day, stop out or success, failed breakout, float, price, etc.

Then, take your results and determine what your success rate is with the strategy to give yourself the confidence to take the trade.

Conclusion

Trading isn't easy. We hope you understand that. However, it is our belief that the fastest way to profitability in the market comes by narrowing your focus to a specific strategy until you learn all there is to know about it.

There will be times when the strategy isn't as lucrative as

other times. General market conditions may change. Give yourself the time and patience necessary to develop awareness and mastery of the strategy.