STOCK MARKET MENTOR

Chart of the Day

Trading Without the Hedge Fund IQ

April 17, 2026

In this session, Dan Fitzpatrick provides a masterclass on the psychological and mechanical nuances of a "lockout" market. He addresses the aggressive move higher, positing that it is fueled by incompetent hedge funds forced into short-covering while institutions remain in control. Dan emphasizes that while chart patterns represent the aggregate "intelligence" of the market—which is infinitely smarter than any individual—the real edge lies in **mental discipline and risk management**. He warns against the "hard money" made by chasing vertical stocks and delivers a stern lecture on the dangers of averaging down, noting that "idiots average losers." Ultimately, his message is to wait for the easy money found in a defined process rather than succumbing to the "FOMO" of a late-stage breakout.

Next Steps:

1. Audit Your IQ (Institutional Quality): Avoid putting money into hedge funds or adopting their biased "short-only" habits. Instead, focus on good, sound trading techniques based on risk vs. reward.
2. Review the "SMART" Process: If you haven't already, watch Dan's Monday Webinar. Internalize the Strategy, Setup, and Trigger framework to move from "gambling" to "process."
3. Respect the "20% Rule": For any stock you are considering, calculate its distance from a valid breakout point. If it is approaching a 20% move, recognize that the reward-to-risk ratio is shrinking and built-in profit-takers are lurking.
4. Embrace the Sidelines: If you are not currently in the winners, do not rush. Acknowledge that you missed the "easy money" and wait for a fresh consolidation. Being "nervous as a whore in church" while holding an overextended position is a sign of poor trading.
5. Stop Averaging Down: If you are in a losing trade, exit. Do not repeat the mistake of "repeating a grade" by throwing good money after bad. Use the loss as a tuition payment for the lesson.

Transcript:

[0:00] Pretty strong day.

[0:02] Jeez, a very, very strong week in the market.

[0:06] So I just kind of want to get right to it.

[0:09] But I will tell you this.

[0:13] How do I say this?

[0:15] The market's really, really strong right now.

[0:18] It's been strong for various reasons.

[0:22] I kind of posted or posited that question this morning, I guess,

[0:26] about whether the strength in the market was short covering because, as I've said many times before,

[0:36] the hedge funds are largely idiots, which is why most of them lose money,

[0:42] and they definitely underperform the market.

[0:45] You'll hear some that work really, really well, but for the most part, like every dipstick has a hedge fund.

[0:54] And they love to short.

[0:58] So as the market goes lower, more and more of them press their bets.

[1:02] And it's almost like they never look at charts.

[1:06] And then finally, when all the sellers have done selling, they're still short.

[1:11] And then the buying ensues, and they still think there's more downside.

[1:16] And then ultimately, they're chasing things higher, and they're going out of business.

[1:21] Happens all the time.

[1:23] so that is my admonition to you to avoid putting money in a hedge fund avoid becoming a hedge fund

[1:32] because that will definitely negatively impact your iq as well as your pocketbook and just to

[1:39] really really just focus on good trading sound trading techniques that are really based first

[1:46] and foremost on risk, risk versus reward. You have to understand chart patterns and chart patterns

[1:53] are simply created by the buying and selling the level of aggressiveness and money spent on buying

[2:02] and selling at any given time. So it's not like a it's not like a chart pattern is a self-fulfilling

[2:10] prophecy or, oh, you know, if I just if I learn these chart patterns and I'm going to make a gang

[2:15] of money. It doesn't really work that way. You can learn and know everything there is to know

[2:20] about trading, but actually applying what you know is a much more difficult thing. It's really,

[2:29] really difficult. And I do believe that the mental aspect of trading is the most important

[2:36] aspect of trading because you can learn all kinds of stuff about trading, but if you're not

[2:44] applying it consistently, then you're always going to struggle. We'll just put it that way.

[2:51] So with respect to the market right now, you know, the question is, are prices going up because

[2:58] of an anticipation of a better economy? In other words, is the market discounting,

[3:05] meaning factoring in, is the market factoring in better times ahead, better economic data ahead,

[3:13] the economy picking up. And I believe that there's a big part of that. That is, in my view,

[3:20] the most important part of it, because look, think about it. I don't give a rip and I truly don't.

[3:27] I don't care what you think about the current president. Doesn't matter to me. Whatever floats

[3:35] your boat but if we look at the history of the election cycle this part of the cycle is really

[3:45] tends to be really really bullish for the simple reason that at least in theory the current

[3:53] administration whatever that is the current administration would have an impact on interest

[3:59] Not so in this case because of frickin Powell, but they would have a lot of control over the things that ultimately drive our economy either up or down.

[4:12] Obviously, the price of petroleum and not just gas and diesel, though, that's a huge issue for for most of you.

[4:22] Jen and I both have electric vehicles

[4:25] So we don't really know what the price of gas is

[4:29] And both of ours actually have the ability to inflate our tires from the car itself

[4:35] So I don't even pull in to fill my tires anymore

[4:40] And I don't eat junk food

[4:42] So that's pretty much it for me, going to gas stations

[4:47] So I have no idea what it is, but I know it's really high

[4:50] That will absolutely impact the economy And there who knows what going to happen there The whole Middle East conflict Seriously who knows what going to happen there either So it just a lot of unknowns in the economy and in like current to future meaning freaking five minutes from now news

[5:15] So what we have to fall back on is this very well-known but often little-followed tenet about the market, which is markets factor in everything, what is known and what is unknown.

[5:31] They factor in everything into current prices. And also, the overall market is infinitely smarter than the smartest individual within the crowd.

[5:44] that is that group of traders that are buying and selling, billions of them.

[5:49] The market in the aggregate, the crowd, is smarter than the smartest individual there.

[5:56] So if you really stop and think about this, and that's really the truth,

[6:02] but if you really stop and think about this, guys,

[6:05] that means that you can be walking around thinking that you're smarter than the market.

[6:10] You can be thinking, oh, the market's wrong here and there.

[6:13] First of all, there is no right or wrong in the market. It just is what it is.

[6:20] So you can be walking around, though, thinking that you know more.

[6:24] But what I just said is absolutely true.

[6:28] The crowd, the aggregate, the market is smarter than the smartest individual.

[6:35] So if you're thinking that you are the smartest individual, by definition, you're not that smart.

[6:42] And so what I just want to emphasize to you, the importance of just really, truly focusing on really two things, what the movement of stocks is.

[6:54] And then also, is that movement of stocks is or movement of stocks are?

[6:59] I know.

[7:00] Pay attention to the movement of stocks.

[7:02] And also what your trading style is and make sure that your actions are congruent with what your style is.

[7:13] And you have to have a strategy that you're set on.

[7:18] And if you haven't watched Monday's webinar, I went through my smart trading process.

[7:25] And I think it's really important for you.

[7:28] If you like the way we trade here, then it's really and if you don't, then, you know, thanks for coming.

[7:36] But it's really important for you to understand and have a process that works for you.

[7:42] And that would include a set, you know, your strategy, a setup and then a trigger and chasing stocks the way so many of them are running right now.

[7:53] Now, chasing stocks, it's a strategy.

[7:57] Sure, it's not a great strategy, but it is a strategy.

[8:02] And you can actually make, I'll explain it to you.

[8:06] You can actually make money chasing stocks and make it consistently.

[8:11] But what you have to understand is that this money that you're making is hard money,

[8:18] difficult money, because you're going to have to watch those.

[8:22] You're going to have to watch those trends very, very well and very, very closely because you've got a risk.

[8:30] You've got a risk of the stock reversing because the big move has already been made.

[8:36] If you're really kind of going with Bill O'Neill's theory, which was that stocks tend to move like strong stocks would move, say, 20 percent and then start consolidating and waiting for the next step up or the reversal.

[8:53] And so the idea is the closer a stock gets to being up 20 percent from a valid breakout, not just any 20 percent, not from the bottom, but from a valid breakout, like above a pivot point, the closer the mark the stock gets to that 20 percent, the more likely it is that that move is going to stall out or even reverse.

[9:21] And even more to the point, the less possible and probable reward you have in your trade because you're getting in so late.

[9:34] And so where do you put your stop?

[9:37] You kind of have to keep a pretty tight stop on that because, again, you're chasing.

[9:42] That's not a strategy that I recommend.

[9:45] I can tie talk about a lot of stocks all the time that well you know it running really well but it it not really not really a great entry I mean I can point out a million not a million but I can point out a lot of stocks that if you buy right now you gonna make money but the question is what the risk for making that money Where do you where do you literally say oh crap I wrong I got to get out of here

[10:13] It's really, really tough. And so I think the easy money is to be made by having a strategy, recognizing the setup and then waiting for a trigger.

[10:23] And if you look, if you're not in a lot of if you're not in winners right now, like let's say you're kind of largely on the sidelines and you're looking for stocks to buy.

[10:37] This is my suggestion to you. You got to understand that the market's going to trade for longer than you're going to live for longer than I'm going to live to.

[10:45] There are always opportunities in the market in the future. So if you are not where you'd like to be right now, don't rush. Don't try to be buying a bunch of stuff now thinking even subconsciously that somehow you get credit for, you know, for owning a stock as if you'd bought it a month ago or 30 percent ago or in the case of Aruka, 90 percent ago.

[11:14] So don't be making that trade.

[11:18] It doesn't work.

[11:19] And so instead, you have to say, you know what?

[11:23] I'm in cash or largely in cash.

[11:25] I got a lot of cash I'd like to put to work.

[11:27] But you know what?

[11:28] I would rather wait on the sidelines and be comfortable that at least I'm at least I don't have a lot of money to risk in a very overextended market.

[11:38] I'd rather be waiting on the sidelines and waiting for the next move.

[11:44] And there will come one, guys, waiting for the next move versus getting in right now and then being like more nervous than a whore in church, you know, waiting for the downfall, waiting for a big pullback.

[11:59] You know, you because once you're in, once you're in, you're in.

[12:04] And then the only thing you can do is get out.

[12:07] And if you're like the last one in the door, man, you're really, really close to the exit and you're really, really nervous.

[12:13] that's just that's not good trading maybe you're going to make some money but man that is tough

[12:19] money to make so let's just kind of focus on sticking to our discipline and looking at the

[12:25] market from an objective point of view as opposed to a biased point of view one thing that

[12:34] um i i think i might have been answering a question in the webinar on monday or maybe i

[12:42] I was just kind of riffing as I sometimes do.

[12:45] No, I was actually talking to somebody, a trader, that the market doesn't care whether you're on a streak.

[12:55] The market doesn't care about that.

[12:57] You can say like, wow, you know, I'm making really, really good money.

[13:01] I've had some really, really great trades.

[13:04] I'm going to get bigger.

[13:05] I'm going to press my bets.

[13:07] I'm really, really going to go all in.

[13:08] Now, if the market's telling you that that's what you should do, then you absolutely need to do that.

[13:15] You want to build on momentum.

[13:17] You want to make as much money as you flip and can.

[13:21] That is kind of why we do this.

[13:23] I mentioned in Andy's option session today, trading shouldn't be exciting.

[13:29] It should be about making money.

[13:31] Now, it could be fun, but it's only fun when you're making money.

[13:34] If you're not making money, at least for me, it's really not fun.

[13:38] That's called work. But if you're making money, then it's fun. What it should not be is exciting.

[13:44] I've never been excited when I've been making a lot of money. I've been happy that I've been making a lot of money.

[13:51] But then at the same time, other than the first time, maybe the first two times I was in this situation where I was just making a crap ton of money.

[14:00] And I got all enthusiastic and thought that I knew more than the market. And so I piled in.

[14:08] And then I wound up on my best buddy Adam Knowlton's couch on Bentley Avenue in Westwood.

[14:14] And I was there for a while because I got too confident.

[14:18] And as it turned out, it wasn't my unlimited brilliance that made me money.

[14:25] It was the markets and my inability to manage my risk.

[14:31] I just like put your money in, you make money.

[14:34] Where's the risk?

[14:35] The risk in that is not having enough money in the market, so you just keep going and going and going.

[14:41] But the market doesn't care about that.

[14:43] The market's the market.

[14:44] And so, like I said, it's important if you are making good money and the market, your stocks are showing you, they're giving you an opportunity to put more in, to add to a winning position.

[14:59] You never add to a losing position.

[15:02] They say losers average losers I will say idiots average losers And if you average down one time and you lose money it really okay

[15:19] It's okay because people do that.

[15:22] That's a common thing.

[15:24] It's a common phrase.

[15:25] Watch Boiler Room.

[15:26] That's what I forget his name.

[15:31] Weird name.

[15:31] was saying like, oh, it's called averaging down.

[15:35] If you do that early in your trading career,

[15:38] if you do that late in your trading career,

[15:40] you're not going to do it late in your trading career

[15:42] because you know better.

[15:44] But if you're doing that early in your trading career,

[15:47] it's okay.

[15:49] The worst thing that could happen is you make money on it

[15:52] because then you're going to think that's the way to go.

[15:54] But you'll typically lose money

[15:56] and you'll lose more than you wanted to,

[15:58] more than you thought you would.

[16:00] And so then the lesson has to be learned. If you average down again, I will tell you one more time. It's OK. Not good, but it's OK.

[16:13] And the reason it's okay is because sometimes it takes more than one time to learn a lesson because the first time in this case of averaging down and losing money, look, you know, the first time you're new, you can think, oh, it's the market.

[16:31] The market's rigged.

[16:33] It's trying to take my stock and all that.

[16:36] It's totally understandable.

[16:37] It's not accurate, but it is understandable.

[16:39] And so you've got this lesson that cost a lot of money, but you haven't really learned it.

[16:48] It's like you're in school and you've got to repeat a grade because you haven't learned everything that you need in order to progress to the next level.

[16:58] Now, I understand in public schools, see, that doesn't happen anymore.

[17:02] You can be a completely illiterate knucklehead and still graduate from college, high school, and probably graduate from college too.

[17:12] I don't know.

[17:12] But the market isn't that way.

[17:15] The market's very Darwinian.

[17:17] Not just the strong survive, but the ones that can adapt the best are the ones that survive.

[17:23] And so you can average down the second time. And if you lose money again, that's when I have to say, man, you've got to learn your lesson there. You don't repeat the same grade twice.

[17:41] First time, it would be good if you learned your lesson.

[17:44] And guys that are here, let me know if this is resonating with you or if this is just a big duh and you'd like me to move on because I got a lot of charts to cover.

[17:53] But it's really important.

[17:55] Again, like you're going to make a bunch of lessons.

[17:59] You're going to make a bunch of mistakes and learn a bunch of lessons in trading.

[18:04] It's just going to happen, especially look if you're and I'm doing my best to to help you.

[18:10] I was talking to Scott the other day, and we really do care here.

[18:16] We really, really are trying to help traders.

[18:19] I'm not just trying to get your money.

[18:21] This isn't a scam.

[18:23] We do trade.

[18:25] We're traders.

[18:26] We're educators, and both of us as well as Andy and Sam, all of us here that trade,

[18:32] we really, really focus on the members, on you wanting to help you not just make money.

[18:39] I mean, that is kind of why you're here, but to help you learn how to make money on your own.

[18:46] That's why we get up in the morning.

[18:48] But even with all of that and with our best efforts, you're still going to make mistakes.

[18:54] And it's because of the this time is different approach.

[18:58] And we all have it.

[19:01] Every so often, happily, not that often anymore.

[19:05] Every so often, I'll have a this time is different moment.

[19:08] But like I said, not so often anymore.

[19:11] And as I think about it, I don't even remember when the last one was.

[19:15] But you're going to have that.

[19:17] You're going to listen to me or Scott or Sam or Andy.

[19:23] And you're going to say, well, you know, I get what they're saying.

[19:27] But, you know, I'm going to go ahead and do the other thing anyway.

[19:31] It can happen and it could work out because none of us are perfect and some of our trades don't work out.

[19:37] That's why it's called trading and not winning or money harvesting.

[19:41] But over time, if you just focus on developing a process and then sticking with it, here's the thing.

[19:51] If you develop a process and you stick with it long enough, it will ultimately become a habit.

[20:00] And it's not really even your process at that point.

[20:03] It's just kind of what you do.

[20:07] Thank you.