

Bracket Trading

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Why Trade The First Hour

The opening bell of the New York Stock Exchange sets off a frenzied scene every weekday morning. There are millions of orders waiting to be filled and traders and brokers anxiously eye the process, waiting to see what the day will bring. Cable television networks have digital countdowns for the start of the trading day. Excitement is high and the adrenalin is flowing through the bodies of those who are prepared to jump in and make money from the first minute.

You can almost hear the mantra: On your mark, get ready, get set ... Don't trade! That's right: Put the brakes on your trading until it's time to jump in and make money, which usually isn't the most profitable opportunity. It's best to wait until the stock market has been open for at least 30 minutes before opening that first trade, if you want to get a stock or option with the best price.

Seasoned traders know that it's best to stay out of the market during the opening hours and are aware that market makers have dubbed that first period of the day as "Amateur Hour." That's the time the trading professionals will overinflate the price of options and add layers of volatility to take advantage of the unprepared. In the early days this period lasted an hour, during which time the market makers and specialists prepared the market orders that were placed, but the introduction of computers in the process cut the time of "Amateur Hour" to as few as 15 minutes, depending on the individual stock.

"I don't trade for at least the first 20 or 25 minutes," says BetterTrades coach Markay Latimer. "If you get into trades too early you're just going to get ripped off."

"If you recall, a market order is basically a ticket to cash flow for the market makers. They will fill you for whatever price they want, and you better believe they want the highest price there is," says BetterTrades coach Darlene Powell.

The only exception for trading when the market opens might be to close a position that already exists in order to capture more profit. Many times a stock will gap up higher at the opening bell, then retrace back to its original position or to a lower price. By exiting a trade in those first volatile moments, a trader can pad their bottom line.

Another opportunity to make money during "Amateur Hour" can occur when a trader is selling to open a position. This means they can get paid the exorbitant premium when they open a trade. But a trader must know what they're doing before they're able to take advantage of the strategy.

While it is possible to make money during amateur hour, new traders should shy away until they're level of experience has been increased. Otherwise these new traders will soon be parted with their money.