MODULE 1 · LESSON 4

Getting Started Safely

Choosing a broker, paper trading, diversification, and your first watchlist.

Presented by
Fankofa

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Prerequisite: Lesson 3 — Reading the Market.

For education only — not investment advice.

About This Lesson

You know why traders fail, how the market works, and how to read it. This final lesson of Module 1 turns knowledge into setup: pick a trustworthy broker, practice with **paper trading** (simulated trading with fake money), understand **diversification**, build your first **watchlist**, and run the **pre-live checklist** before a single real dollar goes in.

By the end of this lesson you will be able to:

1. Compare brokers on regulation, fees, and paper-trading availability.
2. Open and configure a paper-trading account that mirrors your real starting capital.
3. Explain diversification — and show with numbers why it matters.
4. Size a position with the 1–2% risk rule.
5. Build a first watchlist with clear, written criteria.
6. Run a pre-live checklist before trading real money.

Plan on 45–60 minutes, plus the worksheet at the end. No real money needed — by design.

1 — Choosing a Broker

A **broker** is the company that holds your money and executes your trades. Your broker is your business partner — choose like it matters, because it does. Here is the comparison checklist:

Factor	What to look for	Red flag
Regulation	Licensed by a real regulator (e.g., the SEC/FINRA in the U.S.); customer assets protected by insurance (e.g., SIPC coverage)	Unlicensed, offshore, or vague about who regulates it
Fees & commissions	Clear, published pricing; most U.S. stock trades are now $0 commission — but watch margin rates and hidden fees	Fees you can’t find, or “free” with confusing fine print
Paper trading	A free practice account with realistic fills and real-time data	No practice mode — they want you live immediately
Platform	Clean order entry, working stop orders, a mobile app you can actually use	Clunky app, frequent outages, no stop-order support
Support & education	Responsive help, beginner tutorials, a knowledge base	Support you can’t reach, or “education” that’s just upselling

The fee that quietly eats beginners

Commissions get the headlines, but the real beginner-killer is **spread + overtrading**. If you trade 50 times a month and each trade costs you a couple of dollars in spread slippage, that is $100+ a month — on a $2,000 account, that is a 5% monthly headwind before you even start. Beginners should trade **less**, not more: fees reward patience.

Open the account in your own name, enable **two-factor authentication** immediately, and fund it only with money you can truly afford to lose — Lesson 1's rule, repeated because it is the most important sentence in this academy.

2 — Setting Up Paper Trading

Paper trading (also called a simulator or demo account) lets you place real-time trades with virtual money. The prices are real; the dollars are not. It is the flight simulator before the first solo flight — and it exists precisely so your first hundred mistakes are free.

Set it up like it's real

1. **Fund the paper account with your actual planned capital** — if you will start live with $3,000, practice with $3,000, not the $100,000 default. Realism starts here.
2. **Trade the same hours and the same stocks** you plan to trade live.
3. **Write down every trade's reason** before you place it: entry, stop-loss, target. No reason, no trade.
4. **Track at least 30–50 trades** before judging anything. Ten trades tells you nothing; fifty starts to show whether you have an edge.
5. **Go live only when the simulator is boringly profitable** — and expect live results to be worse at first, because real money adds emotions paper trading can't simulate.

The 1–2% risk rule, worked

This is the single most important calculation in Module 1. Before any trade, decide the most you are willing to lose — **1–2% of your account** — then size the position from that risk:

Position size (shares) = risk dollars ÷ (entry price − stop-loss price).

Position sizing, step by step

Account: **$5,000**. You risk **2%** on this trade: $5,000 × 0.02 = **$100**.

You want to buy at **$50** with a stop-loss at **$45**. Risk per share = $50 − $45 = **$5**.

Shares = $100 ÷ $5 = **20 shares**. Position value = 20 × $50 = **$1,000**.

Check: if the stop hits, you lose 20 × $5 = **$100** — exactly your 2%. Your other $4,000 of capital is untouched.

Notice what this rule does: it makes **how much you buy a function of risk, not confidence**. A wide stop means fewer shares; a tight stop means more — but the dollars at risk stay identical. That is the entire secret of surviving long enough to learn.

3 — Diversification Basics

Diversification means spreading your capital so no single stock, sector, or idea can sink you. Beginners hear it as boring advice. It is actually the math of survival:

- Companies surprise you — earnings misses, lawsuits, bad news. Any single stock can drop 20–30% on one headline.
- Sectors move together. Five tech stocks is not diversification — it is one bet wearing a costume.
- Diversify across **sectors** (tech, healthcare, finance, energy…) and **styles** (growth and value, from Lesson 3).

For a beginner account, a practical starting point: **no single position larger than 5–10% of your account**, and no more than about **25–30% in one sector**. The position-size math in Section 2 already pushes you here — follow it and diversification largely takes care of itself.

Diversification math: one stock vs. five

Account: **$10,000**. Bad news hits one company; its stock falls **30%**.

All-in: $10,000 in that one stock → loss = 0.30 × $10,000 = **$3,000 (−30%)**. Recovery needs a +43% rally just to break even.

Diversified: $2,000 in each of five stocks (different sectors) → loss = 0.30 × $2,000 = **$600 (−6%)**. The other $8,000 is untouched.

Diversification didn't prevent the loss — it made it **survivable**.

A fair warning: diversification reduces **company-specific** risk, not **market** risk. In a real bear market, everything falls together — diversification just means you fall less and recover faster.

4 — Building Your First Watchlist

A **watchlist** is a short list of stocks you follow closely — study candidates, not a shopping list. Beginners drown in 200 tickers; professionals watch a focused few. Start with **8–12 stocks** you understand.

Watchlist criteria (write these down)

1. **You can explain what the company does in one sentence.** If you can't, it doesn't belong yet.

2. **Enough daily volume to trade cleanly** — look for at least a few hundred thousand shares a day, so the bid/ask spread (Lesson 2) stays tight.
3. **Not a penny stock.** Keep early watchlists to established, exchange-listed companies.
4. **Spread across at least 3–4 sectors** — diversification practice from day one.
5. **Include one index ETF** (like one tracking the S&P 500) as your baseline: if your picks can't beat simply holding the index, that tells you something.

Example of a healthy beginner watchlist shape (yours will differ — this is a template, not a recommendation): 2 large-cap tech, 1 healthcare, 1 bank, 1 consumer staple, 1 industrial, 1 energy, 1 dividend payer, 1–2 growth names you follow for learning, and 1 S&P 500 ETF for comparison.

What to track for each name

For every stock on the list, keep a one-line log: price, why it is on your list, and what would make you buy it — or remove it. Review the list monthly; a watchlist is a living document, not a tattoo.

Exercise — draft your watchlist

On paper (or in your broker's watchlist tool), list **10 stocks** meeting the criteria above, spread across at least 4 sectors, plus one S&P 500 index ETF.

For each: (a) one sentence on what the company does, (b) its sector, (c) its approximate price and market-cap category (large/mid/small, from Lesson 3).

Then answer: which two would you paper-trade first, and what stop-loss rule (Section 2) would you apply?

5 — The Pre-Live Checklist

Real money changes everything — slower decisions, bigger emotions, real consequences. Do not go live until you can honestly check every box:

1. **Paper-traded 30–50+ trades** with written reasons for each — and reviewed what worked.
2. **Can compute position size from the 1–2% rule** without a calculator melting your brain.
3. **Have written trading rules** (from Lesson 1's worksheet): max risk per trade, max trades per day, when to stop for the day.
4. **Know your broker's order types** — at minimum market, limit, and stop orders work cleanly in the simulator.
5. **Funded with money you can lose** — not rent, not emergency savings, not borrowed.

6. **Can explain every position to a friend** — what the company does, why you own it, where your stop is.
7. **Have a max daily loss that ends your day** — e.g., stop trading if down 3% in a day. Written down, not “in your head.”
8. **Start small anyway.** Even after all this, begin live at half your normal size for the first month. The tuition of live trading is cheapest when positions are small.

6 — Beginner Mistakes This Lesson Prevents

1. **“This broker has the best ads.”** Marketing budget is not a safety rating. Regulation, fees, and SIPC coverage come first.
2. **Skipping paper trading** because “I learn better with real money.” You do — at real-money prices. The simulator teaches the same lessons for free.
3. **Paper trading with fantasy capital.** Practicing with $100,000 when you'll fund $2,000 teaches position sizes you can never use. Mirror your real capital.
4. **Betting the farm on “the one.”** Every blown-up beginner account has a story about one stock they “just knew.” Diversification is the seatbelt for exactly that feeling.
5. **Going live without a daily stop.** One bad emotional day can erase a month of good ones. The checklist exists because willpower fails — rules don't.

Worksheet

1. List the five broker factors from Section 1. Which two matter most to you, and why?
2. Your broker charges a $1 fee per trade. If you make 40 trades a month, what is the annual cost — and what percent of a $4,000 account is that?
3. Account $8,000, risk 1% per trade. You buy at $80 with a stop at $76. How many shares? What is the position value? What do you lose if the stop hits?
4. Same $8,000 account, but you risk 2% with entry $80 and stop $78. Shares? Position value? Explain in one sentence why the share count changed so much.
5. Redo the Section 3 example: $10,000 account, one stock drops 40%. Loss all-in vs. split across four stocks? What rally is needed to recover the all-in loss?
6. Draft your 10-stock watchlist (Section 4) with sector, one-sentence business description, and market-cap category for each.
7. Which pre-live checklist item will be hardest for you? Write one concrete step to make it easier.
8. Write your personal “go-live” promise: the capital amount, the max risk per trade, and the daily stop-loss that ends your day — in your own words.

Key Takeaways

1. Choose brokers on regulation, transparent fees, paper trading, platform quality, and support — never on ads.
2. Paper trade with your real planned capital, log every trade's reason, and complete 30–50+ trades first.
3. Risk only 1–2% per trade; size positions with: shares = risk dollars ÷ (entry − stop).
4. Diversify across sectors and styles: no single position over ~5–10%, no sector over ~25–30%.
5. A beginner watchlist is 8–12 understandable stocks across 3–4+ sectors, plus an S&P 500 ETF baseline.
6. Do not go live until every pre-live checklist box is honestly checked — then start at half size.
7. Your Module 1 foundation is complete: mindset, mechanics, market reading, and a safe start.

What's Next

Module 1 is complete — congratulations on building the foundation. Next up is **Module 2, Lesson 1 — Order Types Deep Dive** (the first lesson of Module 2: How Trading Works), where you'll learn exactly how buy and sell orders work: market, limit, stop, and stop-limit orders, and when to use each one.

Disclaimer

This lesson is for **educational purposes only** and is not investment advice or a recommendation to trade or use any broker. Trading involves substantial risk of loss and is not suitable for every investor. Examples are hypothetical. Consider consulting a qualified financial professional about your own situation.