

A Simple Guide to

GOLDEN RULES FOR FUTURES TRADERS

How to potentially improve your trading and get the results you really want

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Adopt a definite trading plan.

Because of the emotional stress that is inherent in any speculative situation, you must have a predetermined method of operation, which includes a set of rules by which you operate and adhere to, thus protecting you from yourself. Very often, your emotions will tell you to do something totally foreign or negative to what your market trading plan should be. It is only by adhering to a preconceived formula that you can resist the emotional temptations and stresses that are constantly present in a speculative situation.



If you're not sure, don't trade.

If you're in a trade and feel unsure of yourself, take your loss or protect your profit with a stop. If you are unsure of a position, you will be influenced by a multitude of extraneous and unimportant details and will probably end up taking a loss.

Futures and options trading involves substantial risk of loss and is not suitable for all investors. Clients may lose more than their initial investment. The use of stop loss or contingent orders may not protect profits or limit losses to the amount intended. Certain market conditions may make it difficult or impossible to execute such orders. Past performance is not necessarily indicative of future results.



Cut your losses and let your profits ride.

The basic failing of most speculators is that they put a limit on their profits and no limit on their losses. A man hates to admit he's wrong. Therefore, an individual will often let his loss ride, becoming larger and larger in hopes that eventually the market will turn around and prove him correct. Then after a while, he begins hoping for a small loss and gives up hoping for a profit. Human nature also dictates that an individual wants to take his profit right away and thus prove himself correct. There is an old saying, "You never go broke taking a small profit." But you'll certainly never get rich that way. Being satisfied with small profits is the wrong mental approach for making money in speculation. If you are correct when entering a speculative situation, you will know it almost immediately and will show a profit quickly. However, if you are wrong, you will show a loss and you should remove yourself from the situation quickly.

Taking a small loss does not necessarily mean you were wrong in your thinking. It simply means that your timing was perhaps incorrect and that you should wait for the correct timing and situation to allow you to reenter the market. Remember, in any speculative situation, the market is the final judge. An individual must let the market tell him when he is wrong and when he is right. If you show a profit, ride it until the market turns around and tells you that you are no longer right, and, at that time, you should get out...but not before! On the other hand, the market will also tell you if you are wrong and it would be a serious mistake to argue with what it is saying.

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If you cannot afford to lose, you cannot afford to win.

As we have stated in Rule Four, losing is a natural part of trading. If you are not in a position to accept losses, either psychologically or financially, you have no business trading. In addition, trading should be done only with surplus funds that are not vital to daily expenses.



Don't trade too many markets.

It is difficult to successfully trade and understand a specific market. It is next to impossible for an individual, especially a beginner, to be successful in several markets at the same time. The fundamental, technical, and psychological information necessary to trade successfully in more than a few markets is more than the individual has either the time or ability to accumulate.



Don't trade in a market that is too thin.

A lack of public participation in a market will make it difficult, if not impossible, to liquidate a position.



Be aware of the trend.

"The Trend is your friend"

It is vitally important that a trader be aware of a strong force in the market, either bullish or bearish. When this force is at its height, it would be folly to attempt to buck it.

However, one must learn to recognize when a trend is about to run its course or is near a period of exhaustion. By an ability to recognize the early signs of exhaustion, the trader will protect himself from staying in the market too long and will be able to change direction when the trend changes.



Don't attempt to buy the bottom or sell the top.

It simply can't be done unless you have the aid of a crystal ball or some other tool which could be peculiar to the mystic. Be content to wait for the trend to develop and then take advantage.



Never answer a margin call.

This rule acts as a stop loss when your position has weakened considerably. By dogmatically and arbitrarily adhering to this rule, you will be forced to get out of the market before disaster sets in. It is often difficult to admit you're wrong and get out of the market (which you probably should have done well before you received a margin call). However, the presence of a margin call should act as a final warning that you have let your position go as far as you conceivably can.



You can usually sell the first rally or buy the first break.

Generally, a market which has just established a trend either up or down will have a reaction and good interim profits can be made by recognizing this reaction and taking advantage of it. For example, in a bull market, the first reaction will generally be met by investors waiting to buy the break. This support generally causes the market to rally. The reverse is true for a bear market.



Never straddle a loss.

A loss by itself is difficult enough to accept. However, to lock in this loss, thus making it necessary for you to be right twice rather than the once (which you previously found impossible) is sheer absurdity.

While the following are not specific trading rules, they are general observations which will aid the speculator in formulating an understanding of markets:

You must retain control of the situation and yourself. Do not allow your position to control you. It is a mistake to find yourself in a position larger than you can reasonable handle. When this occurs, you will find that the sheer size of the position, rather than the facts of the situation itself, affects your judgment. The commodity does not know that you own it. You must remain impersonal in your trading. When you take a position and you are wrong, remember it is better to get out immediately! The market will not feed badly about it if you do, but you will if you don't. The market always looks its worst at its bottom, and the best at the top. It is important to remember that before the market turns around, it is at its very worst. Therefore, be prepared to treat each day objectively by not allowing the emotional fever to carry over and cloud your judgment. Equity...Equity...Equity...Not Cash. If a man is long from 100 points below the market and you are long from the opening that day, you both had the same amount invested in the market from the time both of you were long.

Therefore, if the market goes up ten points, you each have made the same amount that day. If the market goes down 10 points, you have each lost the same amount. You should not be confused by the fact that someone has taken a position before you. You must be concerned with your own situation primarily. Each day, start fresh. Your paper profits or losses from previous days should not enter into your decisions regarding the course of action you will take. Treat paper profits as if they are your own money. They are! Naturally, the opposite also holds true.



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