50 basic rules

1. Follow the trends. This is probably some of the hardest advice for a trader to follow because the personality of the typical futures trader is not "one of the crowd." Futures traders (and futures brokers) are highly individualistic; the markets seem to attract those who are. Very simply, it takes a special kind of person, not "one of the crowd," to earn enough risk capital to get involved in the futures markets. So the typical trader and the typical broker must guard against their natural instincts to be highly individualistic, to buck the trend.

2. Know why you are in the markets. To relieve boredom? To hit it big? When you can honestly answer this question, you may be on your way to successful futures trading.

3. Use a system, any system, and stick to it.

4. Apply money management techniques to your trading.

5. Do not overtrade.

6. Take a position only when you know where your profit goal is and where you are going to get out if the market goes against you.

7. Trade with the trends, rather than trying to pick tops and bottoms.

8. Don't trade many markets with little capital.

9. Don't just trade the volatile contracts.

10. Calculate the risk/reward ratio before putting a trade on, then guard against holding it too long.

11. Establish your trading plans before the market opening to eliminate emotional reactions. Decide on entry points, exit points, and objectives. Subject your decisions to only minor changes during the session. Profits are for those who act, not react. Don't change during the session unless you have a very good reason.

12. Follow your plan. Once a position is established and stops are selected, do not get out unless the stop is reached or the fundamental reason for taking the position changes.

13. Use technical signals (charts) to maintain discipline-the vast majority of traders are not emotionally equipped to stay disciplined without some technical tools.

14. Have a disciplined, detailed trading plan for each trade; i.e., entry, objective, exit, with no changes unless hard data changes. Disciplined money management means intelligent trading allocation and risk management. The overall objective is end-of-year bottom line, not each individual trade.

15. When you have a successful trade, fight the natural tendency to give some of it back.

16. Use a disciplined trade selection system...an organized, systematic process to eliminate impulse or emotional trading.

17. Trade with a plan-not with hope, greed, or fear. Plan where you will get in the market, how much you will risk on the trade, and where you will take your profits.

18. Most importantly, cut your losses short and let your profits run. It sounds simple, but it isn't. Let's look at some of the reasons many traders have a hard time "cutting losses short." First, it's hard for any of us to admit we've made a mistake. Let's say a position starts going against you, and all your "good" reasons for putting the position on are still there. You say to yourself, "it's only a temporary set-back. After all (you reason), the more the position goes against me, the better chance it has to come back-the odds will catch up." Also, the reasons for entering the trade are still there. By now you've lost quite a bit; you sell yourself on giving it "one more day." It's easy to convince yourself because, by this time, you probably aren't thinking very clearly about the position. Besides, you've lost so much already, what's a little more? Panic sets in, and then comes the worst, the most devastating, the most fallacious reasoning of all, when you figure: "That contract doesn't expire for a few more months; things are bound to turn around in the meantime."

So it goes; so cut those losses short. In fact, many experienced traders say if a position still goes against you the third day in, get out. Cut those losses fast, before the losing position starts to infect you, before you "fall in love" with it. The easiest way is to inscribe across the front of your brain, "Cut my losses fast." Use stop loss orders, aim for a $500 per contract loss limit...or whatever works for you, but do it.

Now to the "letting profits run" side of the equation. This is even harder because who knows when those profits will stop running? Well, of course, no one does, but there are some things to consider. First of all, be aware that there is an urge in all of us to want to win...even if it's only by a narrow margin. Most of us were raised that way. Win-even if it's only by one touchdown, one point, or one run. Following that philosophy almost assures you of losing in the futures markets because the nature of trading futures usually means that there are more losers than winners. The winners are often big, big, big winners, not "one run" winners. Here again, you have to fight human nature. Let's say you've had several losses (like most traders), and now one of your positions is developing into a pretty good winner. The temptation to close it out is universally overwhelming. You're sick about all those losses, and here's a chance to cash in on a pretty good winner. You don't want it to get away. Besides, it gives you a nice warm feeling to close out a winning position and tell yourself (and maybe even your friends) how smart you were (particularly if you're beginning to doubt yourself because of all those past losers). That kind of reasoning and emotionalism have no place in futures trading; therefore, the next time you are about to close out a winning position, ask yourself why. If the cold, calculating, sound reasons you used to put on the position are still there, you should strongly consider staying. Of course, you can use trailing stops to protect your profits, but if you are exiting a winning position out of fear...don't; out of greed...don't; out of ego... don't; out of impatience...don't; out of anxiety...don't; out of sound fundamental and/or technical reasoning...do.

19. You can avoid the emotionalism, the second guessing, the wondering, the agonizing, if you have a sound trading plan (including price objectives, entry points, exit points, risk-reward ratios, stops, information about historical price levels, seasonal influences, government reports, prices of related markets, chart analysis, etc.) and follow it. Most traders don't want to bother, they like to "wing it." Perhaps they think a plan might take the fun out of it for them. If you're like that and trade futures for the fun of it, fine. If you're trying to make money without a plan-forget it. Trading a sound, smart plan is the answer to cutting your losses short and letting your profits run.

20. Do not overstay a good market. If you do, you are bound to overstay a bad one also.

21. Take your lumps, just be sure they are little lumps. Very successful traders generally have more losing trades than winning trades. They don't have any hang-ups about admitting they're wrong, and have the ability to close out losing positions quickly.

22. Trade all positions in futures on a performance basis. The position must give a profit by the end of the third day after the position is taken, or else get out.

23. Program your mind to accept many small losses. Program your mind to "sit still" for a few large gains.

24. Most people would rather own something (go long) than owe something (go short). Markets can (and should) also be traded from the short side.

25. Watch for divergences in related markets-is one market making a new high and another not following?

26. Recognize that fear, greed. ignorance, generosity, stupidity, impatience. self-delusion, etc., can cost you a lot more money than the market(s) going against you, and that there is no fundamental method to recognize these factors.

27. Don't blindly follow computer trading. A computer trading plan is only as good as the program. As the old saying goes, "Garbage in, garbage out."

28. Learn the basics of futures trading. It's amazing how many people simply don't know what they're doing. They're bound to lose, unless they have a strong broker to guide them and keep them out of trouble.

29. Standing aside is a position.

30. Client and broker must have rapport. Chemistry between account executive and client is very important; the odds of picking the right AE the first time are remote. Pick a broker who will protect you from yourself...greed, ego, fear, subconscious desire to lose (actually true with some traders). Ask someone who trades if they know a good futures broker. If you find one who has room for you, give him your account.

31. Sometimes, when things aren't going well and you're thinking about changing brokerage firms, think about just changing AEs instead. Phone the manager of the local office, let him describe some of the other AEs in the office, and see if any of them seem right enough to have a first meeting with. Don't worry about getting your account executive in trouble; the office certainly would rather have you switch AEs than to lose your business altogether.

32. Broker/client psychology must be in tune, or else the broker and client should part company early in the program. Client and broker should be in touch repeatedly, so when the time comes, both parties are mentally programmed to take the necessary action without delay.

33. Most people do not have the time or the experience to trade futures profitably, so choosing a broker is the most important step to profitable futures trading.

34. When you go stale, get out of the markets for a while. Trading futures is demanding, and can be draining-especially when you're losing. Step back; get away from it all to recharge your batteries.

35. If you're in futures simply for the thrill of gambling, you'll probably lose because, chances are, the money does not mean as much to you as the excitement. Just knowing this about yourself may cause you to be more prudent, which could improve your trading record. Have a business-like approach to the markets. Anyone who is inclined to speculate in futures should look at speculation as a business, and treat it as such. Do not regard it as a pure gamble, as so many people do. If speculation is a business, anyone in that business should learn and understand it to the best of his/her ability.

36. When you open an account with a broker, don't just decide on the amount of money, decide on the length of time you should trade. This approach helps you conserve your equity, and helps avoid the Las Vegas approach of "Well, I'll trade till my stake runs out." Experience shows that many who have been at it over a long period of time end up making money.

37. Don't trade on rumors. If you have, ask yourself this: "Over the long run, have I made money or lost money trading on rumors?" O.K. then, stop it.

38. Beware of all tips and inside information. Wait for the market's action to tell you if the information you've obtained is accurate, then take a position with the developing trend.

39. Don't trade unless you're well financed...so that market action, not financial condition, dictates your entry and exit from the market. If you don't start with enough money, you may not be able to hang in there if the market temporarily turns against you.

40. Be more careful if you're extra smart. Smart people very often put on a position a little too early. They see the potential for a price movement before it becomes actual. They become worn out or "tapped out," and aren't around when a big move finally gets underway. They were too busy trading to make money.

41. Stay out of trouble, your first loss is your smallest loss.

42. Analyze your losses. Learn from your losses. They're expensive lessons; you paid for them. Most traders don't learn from their mistakes because they don't like to think about them.

43. Survive! In futures trading, the ones who stay around long enough to be there when those "big moves" come along are often successful.

44. If you're just getting into the markets, be a small trader for at least a year, then analyze your good trades and your bad ones. You can really learn more from your bad ones.

45. Carry a notebook with you, and jot down interesting market information. Write down the market openings, price ranges, your fills, stop orders, and your own personal observations. Re-read your notes from time to time; use them to help analyze your performance.

46. "Rome was not built in a day," and no real movement of importance takes place in one day. A speculator should have enough excess margin in his account to provide staying power so he can participate in big moves.

47. Take windfall profits (profits that have no sound reasons for occurring).

48. Periodically redefine the kind of capital you have in the markets. If your personal financial situation changes and the risk capital becomes necessary capital, don't wait for "just one more day" or "one more price tick," get out right away. If you don't, you'll most likely start trading with your heart instead of your head, and then you'll surely lose.

49. Always use stop orders, always...always...always. The placement of contingent orders by you or your trading advisor, such as a "stop-loss" or "stop-limit" order, will not necessarily limit your losses to the intended amounts, since market conditions may make it impossible to execute such orders.

50. Don't use the markets to feed your need for excitement.