25 Rules of Millionaire Traders

Even though fewer than 15-25% of all people who trade futures are successful over the long haul, there is a small group of elite traders who consistently make huge profits hundreds of thousands, even millions of dollars a year!

What is it these millionaire traders are doing differently?

This booklet lists 25 "Rules of Trading" that many of these top traders follow religiously. We hope you find them enlightening.

The editors staff of Futures Magazine

1 YOU MUST DEVELOP DISCIPLINE:

This may be the hardest "rule" to follow, yet it may be the most important of all. Without discipline, you will be forced to constantly react to the whims of the marketplace, rather than controlling your fate and acting in your own best interests.

2 KNOW WHY YOU TRADE:

There are dozens of reasons why people trade futures. Some trade to control their financial fate. Some like the fast pace. Others like the "hunt" for a big kill. Whatever your reason, you'll trade better and enjoy it more if you understand why you do it.

3 DON'T BET THE FARM (OR THE HOUSE EITHER!):

Futures trading can be very risky, so don't fund your trading account by committing money which, if lost, could throw you into bankruptcy. Instead, fund your account with money to be used only for investing.

4 BE MENTALLY INDEPENDENT:

One of the keys to successful trading is mental independence the ability to free yourself from concerns that might distract you from trading. That doesn't mean you should ignore your friends or family; it simply means you should avoid putting yourself in a situation where financial fear or "static" from friends and family gets between you and your trading program.

5 WALK BEFORE YOU RUN:

Don't jump into the markets before testing your abilities. First, try trading on paper, with no real money involved. Then start trading in single-contract lots. (Ask your broker about smaller lot contracts, such as those offered by the Mid America Commodity Exchange.) No matter which markets you start with, it's wise to become thoroughly familiar with the mechanics of trading before graduating to larger contracts and/or more volatile markets.

6 DON'T PLACE ALL YOUR EQUITY IN ANY SINGLE POSITION:

Many successful traders recommend keeping three times as much money in your margin account as you need for any single position. Viewed another way, this means you shouldn't commit more than one-third of your account balance on any single position.

7 DON'T LET EMOTIONS OVERRULE YOUR BRAIN:

Don't hope for a move so much that it clouds your vision. Hope is a wonderful virtue in many areas of life, but it's often an enemy to futures traders.

8 SET YOUR GOAL, THEN TRADE TOWARD IT:

Profits go to those who act, not those who react. With that in mind, it's wise to decide your entry and exit points, and your profit objective, well before you place a trade.

9 DON'T CHANGE HORSES IN MIDSTREAM:

You can and should make minor corrections throughout the trading period, but don't let the ups and downs that always occur during the trading day affect your overall game plan. Unless the market conditions that first led you to place your trade change, don't abandon your original objective.

10 DON'T TRADE TOO MANY MARKETS:

Many beginning traders feel they must stay on top of all markets, even though they only trade a few. That can quickly lead to paralysis from information overload something even experienced traders can suffer from. Top traders, on the other hand, stay focused on a select few markets and completely master them.

11 DO YOUR HOMEWORK:

There is nothing more critical to the process of making money in the markets than fact-based knowledge of what's going on. Before you place a single trade, you should know the underlying trend, direction, what triggered it, the current trading range, what signals you should be looking for, and what your trading objective is. All of these require information that's readily available from a variety of sources. So do your homework; according to our top traders, it always will be time well spent.

12 DON'T FOLLOW THE CROWD:

Historically, by the time the general public "discovers" a major market move, it's over. For that reason, most successful traders feel uncomfortable when their position becomes popular with the buying public especially when it's popular with small-lot traders. Be careful, however; the opposite maybe true if the "crowd" is made up mostly of institutional traders.

13 NEVER ADD TO A LOSING POSITION:

When your position is losing money, it signals that you are out of step with the market. You are, in a word, wrong! That doesn't mean the market won't eventually turn around, but it usually means it's time to exercise extreme caution and begin applying proven money management techniques to conserve your remaining equity.

Some traders argue that adding to a losing position is nothing more than "price averaging," but the consistent winners view it as trying to justify the magnification of a trading mistake.

14 CUT LOSSES SHORT:

One of the most dangerous mistakes new traders make is failing to admit when they're wrong. Not so with savvy, big-money winners; they try to take losses while they're still small, then wait for a better day.

15 LET PROFITS RUN UNTIL YOU HAVE A REASON TO CASH IN:

Successful traders let profits run until they see some indication technical, fundamental or both that it's time to liquidate only because profits are available. They only close out a profitable position when they see and end in sight.

16 WHEN IN DOUBT, WAIT IT OUT:

Trading decisions based on price moves or news items that occur during the trading day are usually poor ones. Traders who make decisions based on such news are often whipsawed back and forth until their trading accounts are in tatters. Generally speaking, developments that are powerful enough to move market prices have a longer-term effect that will provide several profitable windows of opportunity beyond the start of the move. So if you think a particular piece of news will move the markets, back away from your position and take a fresh look before re-entering.

17 BE CAREFUL WHEN USING "STOP LOSS" ORDERS:

One of the smartest tools you can use is the "stop loss," it can help you cut losses if a market turns against you. But place "stop loss" orders carefully, the top traders caution. Place your stop at the same time you place your order. Don't place your "stop" too close to the current price, or you'll get "stopped out" before you have a chance to make profits.

18 DON'T PLACE ORDERS "AT THE MARKET":

The only time a buy/sell order should be placed "at the market" is when you have to liquidate a position in a hurry. At all other times, an "at the market" order should be placed at a specific price, such as:" Buy 3 contracts of December corn at $2.25."

19 AVOID TRADING IN CONTRACT DELIVERY MONTHS:

Price for physical commodities become very volatile during the month just prior to delivery, and smart traders simply stay out of the markets during that time. While there are profits to be made by making or taking delivery of physical commodities, it's a tricky business left to the professionals.

20 ADD TO YOUR POSITION PYRAMID STYLE:

Never add more contracts to a position than you had in your base (original) commitment to that market. If you started with 5 contracts, add 4, then add 3...2and finally, 1 more shortly before you liquidate the position. This "pyramiding" technique helps you avoid overcommitment while optimizing profits.

21 BE PATIENT:

While there is money being made each and every trading day, that isn't how the millionaires make their money. They recognize that profit opportunities vary wildly when spread over time. They wait patiently until they spot the right signals, then enter the market with confidence. You can do the same and be well positioned to enter the market during those times of highest potential.

22 TRADE DIVERGENCES FROM THE "NORM":

This is one of the strategies top-dollar traders use regularly to rack up big profits. The minute they see a market beginning to stray from the "normal" expected path, they make their move. For example, if traders in general believe the market is bearish, but prices rise through previous resistance levels, the top traders figure it's time to buy.

23 DON'T TRY TO PICK PRECISE TOPS AND BOTTOMS:

Even the very best traders aren't very good at picking the precise point at which a market reverses direction. Realizing this, they get out when they feel the move has lost its momentum and ignore the final few ticks of the move.

24 SHOP THE ODDS:

Smart traders look for market conditions where risk is low and profit potential is high. For example, if a market is trading near historical lows, it would usually mean there is far more potential for a bullish move than for a continuation of the down move. This is the kind of situation in which new millionaires are created perhaps you'll be one of them!

25 TAKE AN OCCASIONAL BREAK FROM THE MARKETS:

If you trade each and every market day, sooner or later your judgement will become blunted and dulled by all the action around you. When that happens, you'll begin to lose money. So ... take a trading break every few weeks. Stay out of the markets for a few days weekends and holidays don't count and use the time to do something totally unrelated to trading. You'll return to the markets refreshed and view the markets in a new light.

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