Cannon Trading Education

Top 50 Futures Trading Rules

Five hundred experienced futures brokers were asked what caused most futures traders to lose money. Their answers reflected the trading experience of more than 10,000 futures traders.

You may recognize some of your strengths and weaknesses. Many of the reasons given are very similar from broker to broker. The repetitions stand to demonstrate that, alas, many futures traders lose money for many of the same reasons.

Perhaps the statements of these experienced brokers can help you in the sometimes fickle, often intricate, and always interesting marketplace of futures trading.

Here is what they said.

1. Many futures traders trade without a plan. They do not define specific risk and profit objectives before trading. Even if they establish a plan, they "second guess" it and don't stick to it, particularly if the trade is a loss. Consequently, they overtrade and use their equity to the limit (are undercapitalized), which puts them in a squeeze and forces them to liquidate positions. Usually, they liquidate the good trades and keep the bad ones.

2. Many traders don't realize the news they hear and read has, in many cases, already been discounted by the market.

3. After several profitable trades, many speculators become wild and nonconservative. They base their trades on hunches and long shots, rather than sound fundamental and technical reasoning, or put their money into one deal that "can't fail."

4. Traders often try to carry too big a position with too little capital and trade too frequently for the size of the account.

5. Some traders try to "beat the market" by day trading, nervous scalping, and getting greedy.

6. They fail to pre-define risk, add to a losing position, and fail to use stops.

7. They frequently have a directional bias; for example, always wanting to be long.

8. Lack of experience in the market causes many traders to become emotionally and / or financially committed to one trade and unwilling or unable to take a loss. They may be unable to admit they have made a mistake, or they look at the market on too short a timeframe.

9. They overtrade.

10. Many traders can't (or don't) take the small losses. They often stick with a loser until it really hurts, then take the loss. This is an undisciplined approach. A trader needs to develop and stick with a system.

11. Many traders get a fundamental case and hang onto it, even after the market technically turns. Only believe fundamentals as long as the technical signals follow. Both must agree.

12. Many traders break a cardinal rule: "Cut losses short. Let profits run."

13. Many people trade with their hearts instead of their heads. For some traders, adversity (or success) distorts judgment. That's why they should have a plan first and stick to it.

14. Often traders have bad timing and not enough capital to survive the shake out.

15. Too many traders perceive futures markets as an intuitive arena. The inability to distinguish between price fluctuations which reflect a fundamental change and those which represent an interim change often causes losses.

16. Not following a disciplined trading program leads to accepting large losses and small profits. Many traders do not define offensive and defensive plans when an initial position is taken.

17. Emotion makes many traders hold a loser too long. Many traders don't discipline themselves to take small losses and big gains.

18. Too many traders are under-financed and get washed out at the extremes.

19. Greed causes some traders to allow profits to dwindle into losses while hoping for larger profits. This is really a lack of discipline. Also, having too many trades on at one time and overtrading for the amount of capital involved can stem from greed.

20. Trying to trade inactive markets is dangerous.

21. Taking too big a risk with too little profit potential is a sure road to losses.

22. Many traders lose by not taking losses in proportion to the size of their accounts.

23. Often, traders do not recognize the difference between trading markets and trending markets.

24. Lack of discipline is a major shortcoming. Lack of discipline includes several lesser items; i.e., impatience, need for action, etc. Also, many traders are unable to take a loss and do it quickly.

25. Trading against the trend, especially without reasonable stops, and insufficient capital to trade with and/or improper money management are major causes of large tosses in the futures markets; however, a large capital base alone does not guarantee success.

26. Overtrading is dangerous and often stems from lack of planning.

27. Trading very speculative commodities is a frequent mistake.

28. There is a striking inability to stay with winners. Most traders are too willing to take small profits and, therefore, miss out on big profits. Another problem is undercapitalization; small accounts can't diversify, and can't use valid stops.

29. Some traders are on an ego trip and won't take advice from another person; all trades must be their ideas.

30. Many traders have the habit of not cutting losses fast and getting out of winners too soon. It sounds simple, but it takes discipline to trade correctly. This is hard whether you're losing or winning.

31. Many traders overtrade their accounts. Futures traders tend to have no discipline, no plan, and no patience. They overtrade and can't wait for the right opportunity. Instead, they seem compelled to trade every rumor.

32. Staying with a losing position because a trader's information (or worse yet, intuition) indicates the deteriorating market is only a temporary situation can lead to large losses.

33. Lack of risk capital in the market means inadequate capital for diversification and staying power in the market.

34. Some speculators don't have the temperament to accept small losses in a trade or the patience to let winners ride.

35. Greed, as evidenced by trying to pick tops or bottoms, is a frequent error.

36. Not having a trading plan results in a lack of money management. Then, when too much ego gets involved, the result is emotional trading.

37. Frequently, traders judge markets on the local situation only, rather than taking the worldwide situation into account.

38. Speculators allow emotions to overcome intelligence when markets are going for them or against them. They do not have a plan and follow it. A good plan must include defense points (stops).

39. Some traders are not willing to believe price action, and thus trade contrary to the trend.

40. Many speculators trade only one commodity.

41. Getting out of a rallying commodity too quickly or holding losers too long results in losses.

42. Trading against the trend is a common mistake. This may result from overtrading, too many day trades, and undercapitalization, accentuated by failure to use a money management approach to trading futures.

43. Often, traders jump into a market based on a story in the morning paper; the market many times has already discounted the information.

44. Lack of self-discipline on the part of the trader and / or broker creates losses.

45. Futures traders tend to do inadequate research. Traders don't clearly identify and then adhere to risk parameters; i.e., stops.

46. Most traders overtrade without doing enough research. They take too many positions with too little information. They do a lot of day trading for which they are undermargined; thus, they are unable to accept small losses.

47. Many speculators use "conventional wisdom" which is either local, or "old news" to the market. They take small profits, not riding gains as they should, and tend to stay with losing positions. Most traders do not spend enough time and effort analyzing the market, and / or analyzing their own emotional make ups.

48. Too many traders do not apply money management techniques. They have no discipline, no plan. Many also overstay when the market goes against them, and won't limit their losses.

49. Many traders are undercapitalized. They trade positions too large, relative to their available capital. They are not flexible enough to change their minds or opinions when the trend is clearly against their positions. They don't have a good battle plan and the courage to stick to it.

50. Don't make trading decisions based on inside information. It's illegal, and besides, it's usually wrong.

Good Trading!

Disclaimer

The material contained in this letter is of opinion only and does not guarantee any profits. These are risky markets and only risk capital should be used.

Past results are not necessarily indicative of future results. The risk of loss in trading can be substantial, carefully consider the inherent risks of such an investment in light of your financial condition.

Day trading can be extremely risky. Day trading generally is not appropriate for someone of limited resources and limited investment or trading experience and low risk tolerance. You should be prepared to lose all of the funds that you use for day trading. And more, you should not fund day-trading activities with funds required to meet your living expenses or change your standard of living.

You should be wary of advertisements or other statements that emphasize the potential for large profits in day trading. Day trading can also lead to large and immediate financial losses.

Day trading will generate substantial commissions, even if the per trade cost is low. Day trading involves aggressive trading, and you will pay commission on each trade. The total daily commissions that you pay on your trades will add to your losses or significantly reduce your earnings.

Day trading on margin may result in losses beyond your initial investment. An investment of less that $25,000 will significantly impair the ability of a day trader to make a profit. Of course, an investment of $25,000 or more will not guarantee success.