

## >: Top 3 Rules to Trading Futures

Monday, June 8, 2009 | Barbara Cohen

This week's article examines 3 key rules you need to consider when trading the Futures Market.

Remember, your first responsibility in trading is to ensure that your portfolio remains intact. After that, think about profit. Always maintain the adage in the back of your mind as you trade... **"Live to Trade Another Day"**.

With that in mind, here are some key rules you won't want to break.

### **Always trade within your comfort zone.**

How does that apply? Say you are used to trading with 5 contracts. With margins, for most Futures, that would mean somewhere around \$2500.

You have been trading well lately, and today you wake up and decide to double your risk, trading 10 contracts instead of 5. You haven't paper-traded or used a live simulator. You just made the decision. Now you are trading outside your comfort zone. Chances are, you'll be more **'careful'** and **'being'** generally tends to result in needless losses.

Never trade with real money before you have fully tested your strategy and have contingencies. Try losing trades on the simulator at the new risk level and see how it makes you feel. Can you afford to lose that amount and still live to trade another day? Perhaps you would feel more in your comfort zone if you increased your risk from 5 contracts to 6, instead of doubling your risk right away. All too often traders make a quick killing, a couple of days at 5 contracts, and decide that they are now consistent and double or even triple their risk.

### **Never risk your entire trading account on just 1 trade.**

If it goes against you, you won't be able to live to trade another day. Look to minimize your losses. If the trade is not going in your direction, exit the trade quickly and accept the small loss.

Say you have a strategy that you are playing. You see the setup on the chart and decide to enter long. News suddenly comes out that immediately threatens the likelihood of your trade being successful. The wrong approach is to remain in the trade with the **"hope"** that the Market will turn around. **"Going on Hoping"** is never a good strategy to trade with.

### **Trade with a well-capitalized account.** Never trade with **"scared money"**

. Scared money leads to poor trading habits, needless mistakes, and generally does not result in living to trade another day. You have \$5,000 to your name. Putting all \$5,000 in a trading account is probably not the best use of the funds. Every trade you make, in the back of your mind you'll be thinking, if I have a loss on this trade, I'll be wiped out. Wait until you have disposable capital that can be risked on trading.

Here's perhaps the most important key for living to trade another day:

### **Never enter a trade because you listened to pundits on television or received a "hot (verbal) tip" from your broker.**

Your broker calls you up and says "You gotta get in on this opportunity, very hot."

The last thing you want to do is take that tip from your broker. Why? Because you have no idea why he is calling you. Is he calling you because he has a hot tip, or is he calling you because his boss told him he had to find someone to buy this "hot tip", or he would have to buy the hot tip himself. Brokers become very motivated (pushy) when they know they have to buy it themselves.

Same holds true for a pundit on television. Why is he talking about that investment opportunity? Is it really a hot investment? Or is he stuck in a position and now trying to find others to buy to drive the price up so he can unload?

Whatever you choose to invest in, always ask yourself, if I make this investment, if I enter this trade, will I be able to **Live to Trade Another Day**?

Before I take any trade, I generally try to talk myself out of the trade first. If I can't find a reason to remain on the sidelines, then I make the trade.

Hope this helps.