THE BEGINNERS GUIDE TO
FUTURES TRADING
Critical Early Steps That Can Lead to Success

by Jim Wyckoff
The Traders’ Community
You’ve been waiting for has finally arrived

As a member, you’ll enjoy:

- Daily Market Commentaries
- Educational Articles
- Charts and Market Quotes
- Headline News
- Trading Contests
- eBook Library
- Blogs and Forums
- Live Chat
- Videos and Audio Podcasts
- and much, much more

TraderPlanet.com is the world’s coolest social network built exclusively for traders.

We’re building a community where people who have common interests in trading worldwide markets can come together and share resources, embrace new friendships, and make charitable contributions to benefit others.

Be adventurous and explore TraderPlanet for yourself!

Create your profile online and we’ll send you a FREE collection of trading e-books immediately upon registration.

(Limited time only)

For Free Collection of Trading E-books, register at www.TraderPlanet.com/freebooks
Intro

This may seem like a strange way to start a book that is intended to encourage you to get into futures trading, but the very first point that must be emphasized is that trading is not an easy undertaking, despite marketing hype you may have seen or heard about trading being a simple to-master, get-rich-quick scheme – once you learn some guru’s “trading secrets.”

Folks, the plain truth is that there are no trading secrets and no easy paths to quick success in trading markets.

Now that we have that out of the way, we can begin to look at some factors a person needs to consider to begin trading. It’s not just a matter of taking some amount of money, opening an account with a broker and then buying what seems to be priced too low or selling what seems to be priced too high. Your preparation for trading needs to begin well before you get to that stage.

One of the biggest obstacles to success in trading markets is a lack of knowledge and understanding of the “process of trading.” The process of trading includes understanding the instruments you are trading, understanding financial leverage, understanding market behavior and understanding yourself. Understanding the process of trading can be achieved with perseverance and a willingness to continue to learn.

Knowing what you don’t know It’s not coincidental that trading markets is similar to most other human endeavors: Hard work and experience are required to achieve notable success. A person who enjoys classic automobiles would not attempt to tear down and successfully rebuild an engine without having some previous experience or without having learned about the workings of an automobile engine, including knowing about the tools involved in the operation.

Ironically, one of the major advantages that experienced traders have is knowing what they don’t know about markets and trading. There are certain elements of futures trading that you cannot “know” and never will. You will never “know” for sure what markets are going to do in the future. You might think that successful traders have special insights, but market analysis and trading is not a business of bold predictions but one of exploring market probabilities based upon market knowledge, price history, human behavior and trading experience and then reacting to price action as it unfolds. The fact that you “know that you don’t know” exactly what a market will do actually gives you a trading edge because you will exercise more caution and will plan
for what could happen if a trade position turns against you. Some trades will inevitably turn against you, and you need to be prepared to take losses before they wipe out your trading stake. Protecting your trading stake is critical to give you a chance to succeed as a trader.

**Trading Prudently**

One sure-fire clue that traders do not have much trading and market experience (and need more!) is when they “know” a market is going to do something. What can be even worse is when a trader thinks he or she “knows” what the market is going to do and then makes a trade that turns out to be a winner. That type of psychological reinforcement of a flawed trading characteristic only sets up the trader for a bigger disappointment at some point in the future – likely sooner rather than later.

The wise trader will prudently place protective buy and sell stops on trades because they do not “know” what the markets will do. It is better to absorb a small trading loss and be termed “wrong” about that trade than to risking trading with no protective stops and seeing a small loser turn into a big loser, all in the “hope” the market will turn around so they can be proven “right.”

Not wanting to be “wrong” is a psychological barrier many traders have to overcome. Traders absolutely must respect the markets. Only the markets are 100% right. Traders who think they “know” exactly what a market will do are not showing the markets respect.

**Summary**

One of the biggest obstacles to success in trading markets is a lack of knowledge and understanding of the “process of trading.” The process of trading includes understanding the instruments you are trading, understanding financial leverage, understanding market behavior and understanding yourself. Each of these topics are discussed in this eBook in chapters like:

- Study and preparation
- Trading psychology
- Spotting a trading ‘setup’
- When to quit your day job
Bio

Jim Wyckoff, a senior market analyst at TraderPlanet.com, and the proprietor of an analytical, educational, and trading advisory service, "Jim Wyckoff on the Markets," is into his third decade of involvement with the stock, financial and commodity futures markets. As a financial journalist with Futures World News for many years, he spent day after day reporting from the futures trading floors in Chicago, New York and abroad. At one time or another, Jim has covered every futures market traded in the United States and several overseas.

Born, raised, and still residing in Iowa, Jim loves adventures, from driving a Jeep across the highest mountain pass in the continental U.S. to extreme winter camping in the Boundary Waters Wilderness in Minnesota to hiking the jungles of South America.

This may seem like a strange way to start a book that is intended to encourage you to get into futures trading, but the very first point that must be emphasized is that trading is not an easy undertaking, despite marketing hype you may have seen or heard about trading being a simple-to-master, get-rich-quick scheme – once you learn some guru’s “trading secrets.”

Folks, the plain truth is that there are no trading secrets and no easy paths to quick success in trading markets.

Now that we have that out of the way, we can begin to look at some factors a person needs to consider to begin trading. It’s not just a matter of taking some amount of money, opening an account with a broker and then buying what seems to be priced too low or selling what seems to be priced too high. Your preparation for trading needs to begin well before you get to that stage.

One of the biggest obstacles to success in trading markets is a lack of knowledge and understanding of the “process of trading.” The process of trading includes understanding the instruments you are trading, understanding financial leverage, understanding market behavior and understanding yourself. Understanding the process of trading can be achieved with perseverance and a willingness to continue to learn.
It all begins with study and preparation

It is probably safe to say that most people who want to get into trading have "day jobs" or other commitments that don't allow them to be full-time traders. Thus, the time they do spend studying futures markets and trading needs to be "quality time" focusing on "quality" information.

Trying to become a successful futures trader is a lot like playing golf: When you first start out, you say, "Hey, this game is not so bad, and I'm doing okay." But then after you have played the game for a while, you realize how challenging golf really is and how "green" you really were when you started playing.

So what can beginning futures traders do to "ramp up" as quickly as possible on the road to becoming a successful trader? Below are a few "nuggets" that will help beginners get up to speed as soon as possible . . . and may even help veteran traders who are struggling to get back on the right track.

- First of all, there is no substitute for trading and market experience. You can paper trade for months, which is recommend for real rookies, but when you've got real money on the line, it's different. Stuff just "sinks in" and is not forgotten when you're making or losing real money. But the good thing about experience is that it's something everyone can accrue, and you can start with mini or micro contracts in some markets to reduce your exposure.

- Become familiar with the markets you plan to trade. You should study not only the markets and their supply and demand fundamentals but also how the market is traded – the exchange, contract size, “regular” session trading hours, contract expiration dates, delivery notices (if applicable), etc. All of this information can be found free on exchange web sites as well as at brokerage firms or on free web sites such as www.TraderPlanet.com.

- Read some good books by successful futures traders. Not only do you need to know the markets, but you also need to know how the successful traders trade them. Much of a trader's success comes from his or her "trading psychology."

- Study a variety of trading methods, not just one trading system. When studying, don't dive into one subject or one market and focus solely on it. Spend study time touching on several topics, then come back for more details on those you find most interesting. If you get into complicated subject matter, sometimes it's better absorbed when it's digested in smaller pieces.
Formulating your own plan of action

Many aspiring traders concentrate most of their early efforts on finding a trading system. If they just had System XYZ, they would be successful, they reason.

But just because one trading method or plan works well for a particular trader, it does not mean the same plan will work well for another trader. Trading plans should be customized to fit the particular person. The old American saying, "There's more than one way to skin a rabbit," certainly rings true in successful futures trading endeavors.

All trading plans should address certain basic trading tenets, such as proper money management. But again, what is proper money management for one trader may not be for another.

Below are a few general questions that may help you define or refine your own trading plan or may help reaffirm that your trading plan is the right one for you.

1. **Are you a trend trader?** Most successful traders are trend-followers, in some form or another. But a few successful traders do "buck the trend" and are not trend-followers. If you are a trend-following trader, then your trading plan should include employing some technical tools that focus on the trend of the market, such as moving averages or oscillators like the Relative Strength Index (RSI) or Slow Stochastics. If you do not consider yourself a trend-following trader, then you probably should not use trading tools whose main focus is price trend.

2. **What is your trading "time frame?"** If your heart is set on being a "day trader," then your trading plan needs to include trading tools that attempt to define shorter-term trends or recognize shorter-term market turns. A day trader is likely to be less interested in a 40-day moving average than in a 15-minute moving average. A longer-term "position trader" is likely to focus on longer-term trend lines or fundamental factors such as economic reports or weather patterns. There are successful day traders and successful position traders, but the point is that you should determine your own style so you can select the right trading tools to help you reach your objectives.

3. **Are you an aggressive or conservative trader?** There is no right or wrong answer here. There are successful aggressive traders and successful conservative traders, but they very likely have significantly different trading plans or methods. Aggressive traders should realize that they will likely experience some bigger trading losses at some point if they attempt to take bigger profits off the table. The aggressive trader's trading plan should take into account that trading account drawdowns are likely to be larger during any losing streak. Although the conservative trader's trading plan will likely not place as much emphasis on big drawdowns, neither should the more conservative trader expect to see bigger trading profits accrue in shorter periods of time.

4. **What is your benchmark for trading success?** This question does not have a single right answer, either. However, your trading plan needs to take into account what you deem to be successful trading. Are you satisfied to be a part-time trader who is not "in the market" with trades at all times. Or are you determined to be a full-time trader who does have a position or
positions most of the time. There is no doubt that there is much more pressure on the person who
tries to be a full-time trader. Any trading plan for the full-time trader needs to be that much more
concise, including contingency plans for losing streaks and bigger account drawdowns.
The important role of trading psychology

To succeed at trading, it's not only important to strive to learn more about markets and trading tools and the trading process, but it's also very important for a trader to know himself or herself. This is part of the all-important – but sometimes overlooked – aspect of "trading psychology."

If you are like most beginning traders, you are probably skeptical of the whole "trader psychology" thing. You just want to learn as much as you can about markets and technical analysis and finding that elusive trading system. You figure trading mentality or psychology would take care of itself. However, the more you learn about the markets and about trading, the more you realize that human nature and psychology play huge roles in both.

Trading is indeed a “head game.” It is much more about personal discipline and controlling emotions than it is about discovering some great trading method. The one truth about futures trading that “psyches out” many traders is that losing trades are a part of the overall process of trading. If a trader cannot accept the fact that during most years he or she will likely have a higher percentage of losing trades than winning trades, then odds for ultimate trading success are very low.

Most professional traders will “cut their losses short” on the more numerous losing trades, and “let their profits ride” on the fewer winning trades. That’s why they are profitable traders. Remember, it’s more important to be profitable in futures trading than to be “right.” Being “right” is an ego thing that will cause traders to pull protective stops, try to “average down” losing positions and do other things that are not conducive to successful trading.

Understanding trading psychology and developing a trading mentality are subjects for books or courses themselves, but here are just a few nuggets that may help you better understand your own trading psychology and the importance of psychology in trading markets:

- Remember that becoming a profitable trader is a journey, not just a destination. The perfect trader does not yet exist. Try to become a better trader each day and enjoy the progress you make. Concentrate on learning the craft of technical analysis and on improving your trading skills, rather than focusing solely on the amount of profit or losses in your trading.

- Congratulate yourself and feel good about a trade when you have done what you were supposed to do, according to your trading plan – regardless of the profit or loss on the trade.

- Don't get overly excited about the winning trades or too depressed about the losing trades. Try to maintain an even keel and a professional outlook regarding your trading.

- Do not expect certainty in a trade. You are looking for a preponderance of evidence, not proof beyond the shadow of a doubt.
• The pain of standing aside and missing a good trade that your method told you to take is much worse than the pain of losing on a trade that you entered and exited properly and according to your trading plan.

• Your own life experiences shape how you think about trading. If your first experience with trading was a negative one, the odds are high that you will not trade in that particular market again for a long time – maybe never. The psychological impact of loss and defeat can be much greater and last much longer than the effects of physical pain. If you were not defeated psychologically by a negative trading experience, then the loss does not have such a negative and lasting impact.

• Education plays an important role in shaping the way traders think about trading. A formal business education can give you an edge in understanding the economy and the market in general, but it is no guarantee of success in trading. Most of the information you learned in a formal college setting will not give you the specific knowledge necessary to be a successful trader. To succeed in trading, you must learn to perceive opportunity where most others see none, and you must seek out the information that gives you the knowledge necessary for success.

• Your ego and winning can make you broke. Winning can create powerful emotions that distort reality. The more you win, the better you feel, and your ego takes over. The joy of winning is what gamblers seek. A gambler will lose as many times as necessary just for the thrill of winning once.

• You are the sole person responsible for winning or losing in trading. Don't blame the market or your broker. Losses are an opportunity to focus on whatever problem occurred during the trade. Don't get caught up in personal denial.

• A successful trader quantifies, analyzes and truly understands and accepts risk. Emotional and psychological acceptance of risk is what determines your mental state in each trade. Individual risk tolerance and preferred trading time frame make each trader unique. Select a trading methodology that reflects your preferred time frame and risk tolerance.

• The market is not physical. It's an amalgamation of the mindset of all trading participants. The daily tug-of-war between the bulls and the bears reveals what they are thinking on a daily basis. Make sure to look at the market's close in relation to the session high and low.

• Never buy just because the price is low nor sell just because the price is high. Never average a losing trade. Don't become impatient with the market. Always have a good reason for initiating every trade. Remember, the markets are always right.

• Traders need to listen to the market. To listen effectively to the market, traders need to know and pay attention to their trading methods but also need to pay just as much attention to themselves as they pay to their charts and the market. The trader's challenge: Learn who you
actually are and then consistently and consciously develop the qualities that allow you to trade well.

- Markets tend to be the most bullish at the very top and most bearish at the very bottom. Traders who follow the herd may have a hard time recognizing the clues that suggest a top or bottom is in place because technical indicators can become less reliable. Thus, being content to catch a bigger part of a price trend should be the goal of the trader.

- “Fear” and “greed” are strong emotions that can be both a blessing and a curse for traders. They can motivate a trader to jump on a potential trading opportunity or to get out of a losing position quickly. However, too much fear will not allow a trader to even pull the trigger to enter a trade or prompt a trader to exit a trade too soon. Greed can cause a trader to become intoxicated with thoughts of hitting the "grand slam" of trading, an event that occurs only rarely in trading futures. Becoming greedy and trying to capture all of a move will usually get a trader into serious trouble.

- As traders, the more you can detach yourselves from the emotions of hope, greed and fear, the better your chances for trading success. Why are there hundreds of good technical analysts but few good traders? Because they need to spend more time on their personal psychology than their analytical methodology.

- "If I had eight hours to chop down a tree, I'd spend six hours sharpening my axe." Abraham Lincoln. This maxim is similar to the trading experience: Research, learning and preparation for trading takes much longer than executing and watching the trade.

- The market has far more patience than the majority of traders. There is an old saying that the market will do whatever it takes to drive the largest number of traders crazy. Trends can persist as long as there are traders fighting them. Don't fight the tape.
Looking at futures trading realistically

With all of that background on studying and planning and trading psychology, it’s time to look at what a beginning trader can do to develop his or her own trading approach. A futures trader's mission is to be profitable by taking the preponderance of technical and/or fundamental evidence he or she has for a market and then make a well-founded trading decision based on a trading plan of action. That is the best a trader can do.

If the market does not respond in the way the trader thought it would, he or she will hopefully have a tight protective stop in place and losses will be minimal. Then, the trader has to take the “ADM” approach: "Accept" it. "Deal" with it. "Move" on to the next preponderance of evidence, where the process starts over.

Reinforcing the point made at the beginning of this book, there is no "Holy Grail" for futures trading success. Experienced traders know how brutal the markets can be for even the most savvy and deep-pocketed traders, as highly publicized hedge fund failures have documented.

Yet, many individuals are fascinated by the markets and trading and find great satisfaction in being able to "take some money off the table." Yes, there are dangers in futures trading but also some real opportunities to make large profits quickly. Sound and strict money management principles can greatly reduce the dangers of losing all of one's trading assets.

One of the realities of futures trading is that there are trade-offs to just about every trading method or trading philosophy. Here are the trade-offs for just a few futures trading methods:

**Trading volatile markets.** Big profits can indeed be made trading volatile markets. Energy and other commodity markets have provided plenty of examples. The trade-off: Volatile markets can turn against a trader "on a dime." Big profits can turn into big losses in very little time. These highly volatile markets can turn into gunslingers’ markets.

**Using tight protective stops.** Protective stops are a good way to go into a trade with a plan of action should the market turn against you. For traders who don't have real-time price data or who can't monitor price action all session long, stops are an excellent risk-management tool. However, protective stops are not perfect. They are not effective in "fast" market conditions or when a market makes a limit move. Suddenly, you are stopped out a position that then recovers and makes what could have been a nice profit for you.

**"System" trading.** "System trading" means mechanical systems for computer-generated buy and sell signals, based on some parameters that are fed into a computer trading program. Having a trading plan or system is essential, but here’s the trade-off: Some systems have you locked into positions all of the time and advertise results that most traders could never achieve. Many computer-generated trading systems have a trader in the market, either long or short, virtually all of the time, meaning constant exposure to risk. Drawdowns on the trading account can be, and many times are, very large. Also, keep in mind that many system performance records are based
on back-tested hypothetical results over several years.

Purchasing options on futures. Buying options is a great way for individuals, especially beginners, to participate in futures market trading and limit their risk to the price paid for the option. Traders sleep well at night, knowing that if the market makes a violent turn against them, they won't get a margin call from their broker. The trade-off: For traders who purchase options, the timing of the trade has to be even more precise than straight futures trading, as options pricing is based on volatility, and time decay continually erodes the option premium. If an option that is purchased is not "in the money," any favorable moves in the underlying futures contract price will likely not be matched on a one-to-one price basis by gains in the option's value.

Selling options on futures. There's an old market adage that says the vast majority of the profits made in options trading are made by the sellers and not the buyers. Probably so but here's the trade-off: Whatever profits that options sellers make on a number of trades can be wiped out quickly in that one time when a market turns unexpectedly and violently against them. Option selling is attractive but not for the uninitiated.
The single MOST IMPORTANT aspect of futures trading

Beginning traders need to consider lots of factors to trade successfully, but do you know what is the most important aspect of successful futures trading?

Is it identifying the trading opportunity?
Is it proper entry into the market?
Is it the trading "tools" you are using?
Is it an exit strategy that is the most important aspect of trading?

The answer: None of the above (although an exit strategy is close).

The most important factor in successful futures trading is money management. You still have to be savvy at chart forecasting and/or fundamental analysis, but it's the money management factor that will make or break a futures trader. The huge leverage involved with trading futures absolutely requires pinpoint money managing.

Becoming a successful futures trader should be more a matter of survival in the early going than scoring winning trades. Surviving in the futures market absolutely requires practicing sound money management. Even rookie traders who start out with a hot hand will eventually find that at least some trades are not going to go their way. If they have not employed good money management principles on those losing trades, they will likely have squandered their trading account away.

Conversely, the novice trader who uses good, conservative money management techniques will be able to withstand some losses and be able to trade another day. The ability to take a loss and trade another day is the key to survival – and ultimate success – in the futures trading arena.

Most successful futures traders will tell you that during the span of a year they have more losing trades than winning trades. But these successful traders set tight stops to get out of losing positions quickly, and they let the winners ride out the trend. On the balance sheet, a few bigger winning trades will more than offset the more numerous smaller losers. Good money management allows that to happen.

"Good money management" is a relative principle. A good money management practice for one trader might not be a good money management practice for another. For example, if you have a trading account of $4,000 and are up $3,000 in a sugar trade, you might seriously think about ringing the cash register on that trade and building up your account so that you could withstand those drawdowns and losers that will eventually occur. But if your account has $30,000, you might want to let that winning sugar trade ride a little longer.
A market will do anything and everything possible to frustrate the largest amount of traders, and the traders who are most frustrated are those hanging on to losing positions because they didn’t have a trading plan and didn’t use sound money management tactics. Here are just a few very general money management guidelines:

- For smaller-capitalized traders, don’t commit more than one-third of your trading capital to one trade. For medium- and larger-capitalized traders, you should not commit more than 10% of your capital to one trade. The larger your trading account, the smaller should be the percentage committed to one trade. In fact, some trading veterans suggest larger trading accounts should not commit more than 3%-5% of their capital to one trade.

- Use tight protective stops on all of your trades.

- Don’t hold your breath too long while under water. Big losses can get bigger. Cut your losses short and let the winners ride the trend.

- Never, never, never add to a losing position.

- Never meet a margin call. If a position gets so bad that it reaches this point, get out and look for trading opportunities elsewhere.

- Your risk-reward ratio in a futures trade should be at least three to one. In other words, if your risk of loss is $1,000, your profit potential should be at least $3,000.

- Remember, preservation of your trading stake is more vital than profits in the early stages of trading.
Spotting a trading ‘setup’

We have spent a lot of time discussing what traders should NOT do, but what about those things that traders should do if they want to become successful?

First, you need a trading plan for how and when to enter and exit a trade – before you enter the trade. Then you need to stick to it. You may get tired of hearing it but plan your trade, then trade your plan. Your trading plan can have different scenarios and options once you're into the trade so you are prepared for a variety of developments, but the key is not "flying by the seat of your pants" when you're in a trade. Emotions should not dictate your strategies while you're actively trading a market.

Know how much money you can stand to lose and then place a protective buy or sell stop accordingly. Don't change your mind when you're in the middle of the trade.

If you've got a winner going, you should also have a plan in place regarding when to take your profits. Again, your trading plan can allow for some flexibility once you are in the trade.

Going with a trend or a breakout

One strategy is to "buy into strength" and "sell into weakness." This trading style abides by the old trading adage, "The trend is your friend." Conversely, traders who try to "fight the tape" and be a bottom-picker or top-picker usually wind up getting their fingers burned.

A favorite trading setup of other traders occurs when prices have been in a trading range or congestion area on the chart – that is, between key support and resistance levels – for an extended period of time (the longer, the better). Then, if the price breaks out of the range, buy on an upside breakout above the key resistance or sell on a downside breakout below the key support.

A safer method would be to make sure there is follow-through strength or weakness in the next trading session before you act to increase your chances of avoiding a false breakout. This type of strategy does mean you could miss some of the price move by waiting an extra trading session.

Of course, if a trader knew exactly when to get into a market and when to get out, wouldn't trading be easy! But even the most successful traders in the world can't do that. The best they can strive for is to catch a bigger part of any move (trend) in the market and then get out with a decent profit before the market turns against them.

Finding entry, exit points

Entry and exits points in trades most times should be based on some type of support or resistance levels in a market. For example, you may think prices of a market are close to a bottom but that’s not enough of a reason to buy. You need to see some strength in the market and should wait for
the contract to push up through a resistance level and begin a fledgling uptrend.

Then, if do get a long position, set a sell stop just below a support level that's not too far below the market. If the trend does not develop and the market turns back south, you are stopped out for a loss that’s not too painful.

Another way to enter a market that is trending – preferably just beginning to trend – is to wait for a minor pullback in an uptrend or an upside correction in a downtrend. Prices don't go straight up or straight down, and minor corrections within a trend offer good entry points. The key is to try to determine if it is indeed just a correction and not the end of the trend.

Here is one simple, yet very effective, way to know when to get out of a position. Upon entering the trade, place a sell stop below the market if you're long (buy stop if you're short). Then you know right away approximately how much money you might lose in any given trade. Conservative traders will probably prefer to set tighter stops so they can survive financially to trade another day. They may get stopped out and miss the move they had expected when they established the trades, but with tighter stops, they will not be in a position to lose substantial money fighting the market.

When you do have a winner going with good profits, this is the time to employ "trailing stops." For example, if you're long and the market reaches your initial upside objective, you might want to stick with it because you think there may be more upside potential. Put a sell stop at a level below the market that allows you to stay in the winning trade. If the market does turn down, you are stopped out but still have a decent profit.

The exact guidelines for setting a stop or trailing stop below the market for the long position (above the market if short) depend on a number of conditions. Markets are different at different times, and traders have different views on how much money they can stand to lose. However, a general rule of thumb is to place stops and trailing stops fairly close to the support or resistance area.

**Staying protected**

Protective stops – a sell stop if you are long and a buy stop if you are short – are not a perfect money management tool, but they are very effective in helping to solve one of the most important elements of futures trading: When to exit a position.

Protective stops do have several disadvantages. Prices may run right through your stop during illiquid trading periods or if there is a sudden new market development, causing you to get filled at a price far from where you expected. Also, large traders who know, or think they know, where most of the resting buy or sell stops are located may try to “gun” for stops, triggering stop orders and then profiting when prices return to previous levels.

Gunning for stops was probably more prevalent in the “old days” when all trading occurred on exchange floors as locals sometimes took advantage of their inside position to push a market around, but it’s important to remember that no one group of traders – not even floor traders – can
control market prices very much or for very long.

As advances in technology and communications became available in the 1990s, traders gained better access to news events, and electronic trading leveled the playing field for traders of all sizes around the world, negating the edge that floor traders once had. Now coat-tailing the actions of commodity funds has become an issue as the practice sometimes exaggerates price moves and creates another challenge for traders using stops.

**Trading with bands**

To avoid placing stops near trendlines or support and resistance points that may be too obvious, some traders use some version of a moving average envelope method. The envelope represents bands that are plotted above and below a selected moving average, and trading signals are produced if prices approach or move away from the envelope.

Although trading rules vary, the simplest approach uses the price band as an entry and exit point. When the price penetrates the upper price band, you initiate a long position or, if you have an existing short position, you close out that position and go long. Conversely, when prices penetrate the lower price band, you close out long positions and go short.

Another method uses the predicted next day high (gold line on coffee chart below) and predicted next day low (pink line) from VantagePoint Intermarket Analysis Software to produce these envelopes. Traders can go long on a breakout above the predicted high or short on a breakout below the predicted low (blue circled areas) or can use the predicted highs and lows as boundaries for intraday trading.
Other traders like to use technical indicators in conjunction with typical chart patterns. In addition to clues that traders get from the indicator readings themselves, one of the more useful feature is when these indicators diverge from the price action on the chart. The sugar futures chart below provides an example as prices make a new high while the Moving Average Convergence Divergence (MACD) indicator is moving lower. Typically, the price action will resolve itself in the direction of the indicator.
This chapter has covered only a few of the many possible trading setups that a beginning trader might see on a chart. As you gain more experience with charts, you’ll encounter many other potential setups that might fit into your trading plan as you find entry/exit points and stops that fit your trading style.
When to quit your day job

If you get a taste of trading success, you may be like many beginning traders who start thinking about quitting their day jobs and becoming full-time traders. If you have that thought in mind, is it realistic to think that you will ever make a good living as a full-time futures trader?

Certainly there are traders who have become very successful, but you have to be prepared to take losses and accept the reality that trading is one of the toughest professions to master if you think you are ready to attempt to join the elusive rank of full-time trader. It takes study and work, but even hard work does not guarantee futures trading success.

Markets will never be tamed. There are no sure-fire systems or “trading secrets” that will beat the market on a consistent basis.

Trading is not a business of market predictions but one of exploring market probabilities, based upon fundamental and technical analysis . . . and human behavior. By exploring and understanding market probabilities and human nature, it is possible to achieve trading success.

What it takes

What are some clues that you could be one of the fortunate few that actually could succeed at being a full-time trader? Here are a few questions to ask yourself if you think you might be ready to trade futures full-time:

1. Are you a successful part-time trader? You'll need to be successful at trading futures on a part-time basis before you think about moving into the full-time trader ranks. Don't be fooled into thinking that trading futures on a full-time basis will allow you to spend more time to cure your part-time trading ailments. In other words, don't say to yourself, "If only I could spend more time trading markets, I could have more success than I've had just trading one lots here and there."

2. Do you have enough money available to live on when – yes, when, not if – you hit a streak of losing trades? A losing streak will inevitably occur, probably sooner rather than later, and it may be a stretch of poor performance of up to six months, or longer.

3. Do you have the psychological stamina to be a full-time futures trader? Quite frankly, most people do not. Can your psyche, not to mention your pocket book, handle six months of mostly losing trades? Ego and emotions can be very demanding forces.

4. Will your immediate family members support you, even during a prolonged rough stretch of trading? For example, if your spouse does not support your decision to trade full-time, then you are likely doomed to failure. The pressure of having to produce winning trades and knowing that your spouse is skeptical of your efforts is almost insurmountable.

5. Will you be able to uphold your family or other important responsibilities even during a rough
trading stretch? Or will you brood and kick the dog when it happens to cross your path? Financial strain is not conducive to good relationships and a happy life.

The questions above may not apply to you. You may be one of those people who have retired from their day job and are ready to trade full time as long as you can define what “full time” means to you. You may already have significant amounts of money derived from means other than trading futures and want to spend the autumn of your life not in a rocking chair but in a field that is challenging to you.

If that is your situation, you’ll find that futures trading is probably the most challenging endeavor you could ever undertake but, at the same time, one of the most exhilarating. Good luck in tackling your new “career”!
STUDYING MARKETS AND TRADING ...

A NEVER-ENDING JOURNEY

Lane J. Mendelsohn, Publisher, TraderPlanet.com

Less-experienced traders are always asking questions about how to best learn and study "fundamentals" or "technicals" in markets.

There is no quick and easy way to study market fundamentals, and few trading books focus only on fundamentals that impact all futures markets. The reason books on fundamental analysis of futures markets are so rare is because the subject matter is so enormous. Here is just a smattering of macro fundamental factors that impact commodity and financial futures prices: weather, world politics, consumer tastes and consumer demand, physical supplies of a commodity, inflation, interest rates, currency values, natural disasters ... and the list could go on and on.

Technical analysis addresses part of the dilemma of keeping up with all the fundamental factors impacting futures market prices because price activity is a composite reflection of every news event and/or other fundamental factor known to all traders. Price activity also factors in ideas and speculation about the future prospects, and future news, for the market.

But the big challenge for traders has always been to be among those people who know about all those fundamentals and chart patterns in a timely manner and can interpret what they mean for prices in the market they are trading.

Now a new trading portal called TraderPlanet (www.TraderPlanet.com) gives traders a source of fresh fundamental and technical analysis information daily as well as many trading education features to help move the trader down the road of more successful trading. Markets are changing constantly every day and every minute, as anyone who has observed recent events can attest. What you read in newspapers and magazines can become outdated quickly, and traders need current information and data to succeed.

Got a question and looking for an answer about a product, trading strategy or whatever else is on your mind? It is quite likely that there's someone else out there on this trading planet who has been wondering the same thing or is willing to share their experience to help you out.

Want to talk to a corn farmer in Iowa or a sugar cane grower in Brazil or a banker in London? Somewhere on this planet someone may want to share their views with you, and TraderPlanet.com's goal is to facilitate those connections wherever traders are located. The global community is now a local community, and TraderPlanet.com is designed to get you acquainted with your trading neighbors.

But TraderPlanet is more than just a one-way conduit of current news and information directed to users. It is a new social networking experience for traders that provides them with plenty of interaction with other traders and with top trading analysts and experts – blogs on a variety of topics, chat rooms, trading contests, sentiment surveys and a new gauge of market opinion, the TraderPlanet Indexes for eight market areas. And there are even "My Planet" personal pages for photos and details you may want to share with other traders.

Membership is FREE — Join Today at TraderPlanet.com