

Trading for a living – Cliff Notes

By Acumen, link to [the FF thread](#)

Lesson 1: Money Management

Simple: Risk no more than 2% on each trade.

Example:

I have an account with \$1000.00

2% of \$1000.00 is \$20.

The stop loss on my system is 75.

The amount of risk/pip is 27 cents (rounded).

So – can you trade for a living if your initial capital is \$1000?

Hint: NO

Lesson 2: Mechanical System

Emotion is the downfall of many traders.

Take the majority of discretion away utilizing a mechanical trading approach.

A winning system that is forward tested by YOU and produces a winning track record over a six month period.

Demo accounts are great for testing systems.

The hard part isn't finding winning system - it's finding a winning system that fits your personality.

If you can't trust the system then it could be the grail and you will eventually lose.

If you can't beat a demo account with the system you can't be the real thing.

Lesson 3: Analysts Analyze – Traders Trade.

If you can beat the market you are in the minority.

The mythical figure is 95% fail... which is horseshit but that's another thread.

I read a lot of FX related info... I love John and Wade and Bloomberg is a staple... BUT.

I NEVER trade based on an analyst recommendations.

Lesson 4: Targets are a must

After you've demo tested a mechanical system you feel comfortable trading it you'll know where your stops should go.

Intraday traders rarely use stops above 75 PIPS and often have a system for taking profit.

I like a two step process on taking profit.

I use 2 lots.

I close one after a 30 PIP profit and pull my stop to break even.

I close the second one based on my system.

The point isn't how you stops and profit targets... it's that you use them.

Lesson 5: Realistic Profit Goals

Realistic will depend on many variables.

Beat the market for 6 consecutive months and you are on your way.

After you beat the market for six months move your goals up.

I like 5-10% as a day trader.

Lesson 6: Trade when the banks do.

The banks move this market.

They have certain prime hours they trade... learn them and trade only during those hours and your hit rate will be much higher.

We are retail traders... gnats on an elephants ass... you need to be on the right side of the market when they move or... you lose.

Lesson 7: Confluence

When two or more things align to create a stronger signal.

Take the attached chart of the USDJPY

Take note of 4 red arrows pointing downward at the start of last Fridays trading session. (A mechanical system trade)

The market has moved to the pivot point during the Asian session. (Signal 1)

The pivot point is very close to a round number. 96.00 (Signal 2)

The pair is overbought on the 15 min chart. (Signal 3)

My system fired off a sell signal. (Signal 4)

My system would have been all I needed to place this trade.

However... when it was combined with several other 'indicators' the trade was a no brainer.



Lesson 8: Pivots

Pivots are very effective in this market.

Even if you don't want to use them as a principle system please put them on your charts.

Dail pivots are highly effective if you trade any of the majors.

Check out today's chart of the e/u.

It should really be self explanatory.

A trade I really like is when price blows through the main pivot point, retraces back to the pivot and continues on it's journey.

It did so today – to the PIP.

This happens a lot and the hit ratio is very high.
Attached Thumbnails



Lesson 9: Trade Like Cal Ripken Played

If baseball isn't your thing Cal Ripken was one of the most consistent players in history.

He holds the record for consecutive games played and was always 'in the game.'

So... don't look to hit home runs everyday.

150 PIP days are rare if you are a CONSISTENT day trader.

Play the game consistently every day and you will come out ahead.

I hit singles and doubles every day. (31 PIPS today)

That's a nice single.

Yesterday was a nice double. (54 PIPS)

I'm done for today.

Lesson 10: Your System Should Know Occam

Simply stated – when you have two competing theories – the simpler one is almost always the most effective.

Can you explain your system to a third grader?

If not... probably not the most effective.

I love scam sites.

Here are some great lines...

"We have a method that only the insiders have"

"This offer will expire in two days"

"Only 5 left at this price"

Truth... simply no substitute for a simple, forward tested strategy that fits your personality.

What does it mean to "fit your personality"?

If you don't like trading long term then you could be handed the grail and won't succeed because you won't trust it.

If your personality is to trade long term... find a simple strategy that works.

If you are a day trader... pray a lot and find a simple strategy that works during the prime hours.