

Some Helpful Guidelines For Futures Trading

Success in trading commodities is dependent upon a variety of factors and is very elusive. The reasons for failure are many. I have divided many of the reasons for failure into three categories: Capital, Attitudes, and Techniques (CAT). CAT addresses most of the major problem areas. Included in each category, is a list of guidelines that may be helpful to you while trading futures. In the pages that follow, brief descriptions will be given for all of the 32 areas listed below. Enjoy!

Capital:

1. Capital is your most important resource.
2. Capital trading management.
3. Cease trading for capital preservation.
4. Covering your costs.
5. Developing deep pockets.
6. Limiting your losses.
7. Resisting the over-trading trap.
8. Setting trading goals.
9. Staying focused.

Attitudes:

10. Be able to take profits.
11. Be willing to sell first. *****Producers Take Note*****
12. Be your own person.
13. Exiting a trade that just doesn't "Feel Right".
14. Fighting Fear.
15. Fighting Greed.
16. Having a humble attitude.
17. Having a trading temperament.
18. Having discipline.
19. Knowing yourself.
20. Practicing patience.

Techniques:

21. Having a plan.
22. Keeping a log of your trades.
23. Knowing the trend.
24. Learn to use Japanese Candlestick Charting.
25. Seeing the big picture.
26. Solving Time-Frame confusion.
27. Stalking the trade.
28. Staying with the trend.
29. Sticking with the original type of trade.
30. Trading in sync.
31. Understanding the chart patterns.
32. Why experience is your best teacher.

CAPITAL:

1. Capital is your most important resource.

This is a must! Under-capitalization is probably the number one reason why most futures traders lose money. Unless you buy the 30-year High or sell the 30-year Low, if you have enough capital and patience, you can wait out almost all the negative moves that occur against you. Of course, the greater the percent of full contract value you use for margin, the fewer dollars there are available to use for other trades, which will obviously dilute your leverage. On the other hand, however, exercising extreme leverage is what usually will cause you to lose your money in the first place.

A reasonable rule of thumb is to have 20% of the full contract value available for margin deposits for each contract traded. Ideally, a "Full Position" for a given set of trades would be 6 contracts per commodity traded. Therefore, 6 - 5,000 bushel contracts of Soybeans @ \$5.00/bushel equals \$150,000 of full contract value. At 20% funding, that will require \$30,000 of capital to trade 6 Soybean contracts when beans are priced at \$5.00 per bushel. This is more than most people are accustomed to having available for a trade.

It is very important to balance your trading loss of capital per trade with the type of trade being entered. The goal is to not lose more than 2% of your capital on any one contract. Long-term trades lasting for several weeks might require a stop loss of 30 cents per bushel. That would be \$1,500 per contract, which in turn would require a capital base of \$75,000 at 2% for one contract. In the example above, \$30,000 was expected to handle 6 Soybean contracts, and that would mean that a loss of 2% per contract would require a 12-cent per bushel stop rather than 30 cents. Therefore, it will require more capital to take longer-term trades that require the use of larger stops than it will for shorter-term trading while using smaller stops. The proper balance is very complex and not always easy to execute, but it is important to keep in mind as your trades are executed.

The reason that 6 contracts for a given set of trades is ideal is that it allows you to scale into and out of your established positions in 3 increments. The explanations for doing so will be covered in other sections. When entering short, for example, three contracts could also be used if you have less capital, but the average entry price will not be weighted toward the higher fill price.

2. Capital trading management:

Managing your trading patterns is another fundamental for success. When a string of losses start to take place, and they always will with every plan and/or trader, it is important to have precise plans in place to curb your trading during this time. For example, while day trading, after experiencing 3 losing trades in a row, cease trading for the rest of the day. If you experience 3 losing days in a row, (losses exceed gains for the day, not necessarily 3 losses in a row for 3 days in a row) cease trading for 2 trading days. If you have 2 losing weeks in a row, (2 weeks where losses exceed gains) cease trading for 1 week. Taking a break from losing patterns provides a mental break, which refreshes your mind, and renews your focus.

3. Cease trading for capital preservation:

In conjunction with curbing your trading when a series of losses occur, it is also important to curb your trading when a pre-determined level of loss occurs each day, week, or month. For example, 3 losses in a row, trading 6 Soybean contracts, using a 12-cent stop, would equal 36% of your original \$30,000 account, assuming it was funded at the 20% level, and that is too much. So, a limit of 10% of your capital lost per day, 20% lost per week, or 30% lost per month might be used to stop your trading until the next appropriate time period arrives.

4. Covering your costs:

After establishing a "Full Position" of 6 contracts, (or 3 contracts depending on the size of your account) immediately calculate all of your costs to determine a breakeven cost, add 50.00 dollars per contract to that cost and offset 1/3 of your contracts at the calculated price. From that point on, you will be operating on "their money".

This is the "ideal", and that doesn't always happen. If the market never gives you the opportunity to "cover your cost", you will then need to rely on other methods to exit; with stops, at the end of the trading period, for the length of trade established, and with a smaller profit objective, etc.

5. Developing deep pockets:

The purpose of trying to accomplish all of the things included in this list of guidelines is to help you develop what I call "deep pockets" or adequate resources. The resources needed are capital, emotional, intellectual, physical, and psychological. By developing "deep pockets", hopefully you will be strong enough and better prepared with enough resources, that no matter what happens, you will be able to weather the markets and survive.

6. Limiting your losses:

Having a definitive stop price in mind is imperative to capital preservation. Your stop-loss discipline must be part of your plan, but not necessarily stated to the market ahead of time. Placing your stop, as an open order, tells the market where your stop is and encourages a "stop hunting" signal to local floor traders. Keep the stop price to yourself, until you are forced to use it, but do not change it or overlook it, once your decision has been made.

7. Resisting the over-trading trap:

Being able to resist the temptation of adding too many positions to your trading portfolio, thus depleting your safe margin deposit requirements is imperative to preserving your capital.

8. Setting trading goals:

Success doesn't come in a vacuum. For a successful trading style that will be progressive, it is important to set an achievement goal for the net growth of your account on an annual basis. A 50% net return on a \$30,000 account is \$15,000 per year, which is less than \$300 per week, or about \$60 per day! Even a 100% net return per year would only be \$120 per day, and \$120 per day, plus your commissions on three contracts entered as a day trade, would be about 2 cents per bushel per day gross. Currently, as I write this, hourly lead-option Soybeans have an average range of 3 cents per hour. The average trading range per day in Soybeans is a little over 8-cents per day for each of the last 3 years. Just as we live life one day at a time, we need to manage our good trading returns, one day at a time. This prospect takes work and dedication.

9. Staying focused.

Staying focused is extremely important and very taxing. It can be very tiring on all of your being, body, soul and spirit. You need to focus on your plan, your trading techniques, your goals, and your health. Being physically fit is germane to being mentally alert. Developing a routine that promotes mental and physical health is very important. Staying focused on all of these things, and having a plan is paramount to success.

ATTITUDES:

10. Be able to take profits:

In conjunction with the section that follows that addresses staying with a profitable trend, knowing when to, and being able to, - take profits is also a key to success. Having a profit objective in mind and taking that profit when it is offered to you is prudent. Never let a profitable position turn into a losing position. Taking a profit is never wrong. Assuming you have covered your costs with the first 1/3 of your position, when you have reached your profit objective, take those profits with a second 1/3 position. That will leave a final 1/3 position for continuing with the longer-term trend, at least to the end of the time duration of the trade, based upon the type of trade entered.

11. Be willing to sell first: *****Producers Take Note*****

The non-professional, small public trader usually likes to enter the market from the long side. They like to buy first. There are situations when the professional trader may want to be long, but quite often better profit opportunities develop from the short side, or selling side. Prices only rise from new surges of buying energy. When that energy has been spent, the laws of atrophy set in and prices fall. It's like a piano key being struck - once the hammer hits the string, unless more keys are struck, the sound from the first note soon dissipates and silence returns.

Another way to view price rallies is to compare the buying energy with that of a backstroke...say the backstroke of a hacksaw, or of a mechanical file, or of oars on a row boat, or the piston in a pump. Work can only be accomplished in these examples because of the recharging energy of the backstroke. The backstroke restores the tool to a working position. Rallies in the commodity market should be viewed as restoring the market to a new, higher selling position.

Producers are innately long by nature of their profession. They should view all rallies, as a recharging of the market that will allow them to sell their inventories and production at higher prices. Whether you are a trader or a producer, if you always initially approach the market from the selling side, you will be better able to maintain your focus, stalk your trade with more energy and have less distraction.

12. Be your own person:

Seeking the thought and input of others is fine, if it stimulates your own thinking processes, but choosing a majority opinion, as the best course for you to take, is an invitation to trouble. You must do your own homework and you must make up your own mind. The market will not pay you for being a leaf in the wind! No Guts, No Glory!

13. Exiting a trade that just doesn't "Feel Right":

This is difficult to explain, because fear can disguise your assessment of a trade. Having said that, some times, even when a trade goes your way, it will not meet your expectations in how it behaves. If it doesn't "Feel Right", especially if it doesn't go your way within 2 or 3 bars, get out from under it and look for a better trade setup, one that fits your psyche and plan.

14. Fighting Fear:

Fear is always present. It causes you to panic when you miss a trade, driving you to establish a position too late, usually near the end of a move. It also causes you to enter an unplanned stop, usually right at the end of the move. This most often results in a lose-lose process.

15. Fighting Greed:

Greed rears its ugly head everywhere when it comes to trading. It causes you to over-trade, to reach too far in establishing a position, and staying with a position much too long before taking profits.

16. Having a humble attitude:

Trading the market is like using electricity. You must understand its power and respect it, or it will kill you! If you treat it with respect and use it properly, it will help you abundantly. An attitude of humility will assist you in approaching the market. You can never afford the luxury of having a “comfortable” or “complacent” attitude when it comes to trading in the market. Hard work, diligence, and a humble attitude will definitely pay big dividends.

17. Having a trading temperament:

To be honest with you, this is an intangible entity. If you're able to understand, perceive and follow the guidelines outlined so far in this list, then your temperament will qualify. If not, trading is not for you. Other clues about your temperament for trading is how you react to losses, being able to maintain your focus, staying disciplined, etc.

18. Having discipline:

Discipline is the best safeguard that will keep you focused and out of trouble. It will keep you on course and not allow you to become guilty of “over-analysis”, or “over” anything else. Discipline comes with experience, but it is reinforced when you have a plan...one that can be executed.

19. Knowing yourself:

Outside of having enough capital, which I listed first, knowing yourself is probably the second most important part of being a successful trader. Only you can know when you are “in too deep” and “over your head”. Trying to trade beyond your emotional capacity is another guaranteed formula for disaster. The market is never “right”- that’s why it’s always changing. Likewise, it’s never “wrong”- that’s why it takes no prisoners.

20. Practicing patience:

Obviously, patience is required in “stalking the trade”. This is further explained later. Always remember that you **never** have to take a trade and there will **always** be another opportunity somewhere down the road to trade. Do not force a trade because of a lack of patience, especially if the setups, criteria that you like to use, are not in place. Likewise, exiting early because of impatience can be very costly.

Techniques:

21. Having a plan:

Trading just for the “fun of it” is an excellent way to lose your capital. If you don’t have a plan, the markets will. The market's plan is to take your money away from you! Your plan will not allow you to change an intended Day Trade (DT) that didn't quite work out to a Short Term Trade (STT), or some other time frame.

22. Keeping a log of your trades:

This is probably the most neglected part of trading, and yet it could be the most valuable. Prepare some kind of Form* to help you track your trades, why you did what you did, and the results of those trades.

Make notes about how the market performed relative to your expectations and the **Bollinger Bands. You might want to note how many times the market closed outside of the **Bollinger Band, and by how much, before reversing, or how many new Lows or Highs were recorded in the moves that were traded. The possibilities are endless. You must decide this recording procedure for yourself, as you will be the one referring to the data.

Different commodities have different characteristics, and keeping a written record of any pertinent data will enable you to build your own personal historical library of the markets you trade. After several cycles of trading, you will begin to generate a valuable resource, that money will never be able to buy. It will be priceless to you in your future as a trader!

* See the sample Log Worksheet that is enclosed.

** See the Chart included later for an example of these technical tools.

23. Knowing the trend:

Trends can be for minutes, hours, days, weeks, months or more. It all depends upon your original trading plan. A good way to determine a trend is to examine the slope at the midpoint of the Bollinger Band on the time chart you are trading. A rising midpoint line is an uptrend, a horizontal midpoint line is without trend, and a falling midpoint line is a downtrend.

24. Learn to use Japanese Candlestick Charting.

More and more, professional traders, especially "off-floor" traders are learning how to master Japanese Candlestick charts. The Japanese Candlestick charts work with the same information that a regular line-bar chart uses: the Open, High, Low and the Close. The charting method is more visual and allows one to spot reversal patterns easier and quicker. The fat part of the bar is the difference between the open and the close. If the close is above the open, the fat part, or the "body" as it is called, will be open and white. If the close is below the open, the "body" will be filled in and is black or red, depending on the color scheme chosen. The thin lines above or below the "body" represent the extreme High and Low for the bar. Various traders call the thin lines, "Shadows", "Wicks", "Whiskers", or "Tails".

Most of the major patterns the Japanese have observed are reversal patterns. One of the best-known books available for Candlestick study is "Japanese Candlestick Charting Techniques" by Steve Nison. It was published in 1991.

25. Seeing the big picture:

Whether you choose to day-trade the Bond market from a 5-minute chart or the Soybean market from a weekly chart, being able to reflect on the big picture is important. Knowing where the market is, relative to its recent history, as well as where it is, relative to the next larger time frame, will help you stay focused.

26. Solving Time-Frame confusion:

Computers have provided the luxury of having almost any time span you desire for charting, from ticks, to minutes, to hours, to days, to weeks, to months. It is very important to learn how to match the length of time displayed on a particular chart with the length of time you intend to be in a trade, or with the type of trading you are wanting to accomplish. It is not easy. Often the time that works best for one commodity is not necessarily the best for another type of commodity.

For the sake of clarification, there are primarily 5 types of trades: (DT) Day-Trading, that lasts less than a full day; (STT) Short-Term Trading, that lasts up to a week; (ITT) Intermediate-Term Trading that lasts up to a month; (LTT) Long-Term Trading that lasts more than a month; and (SLTT) Super Long-Term Trading that will last more than a quarter.

An interesting point to keep in mind: all Highs or Lows that become turning points on monthly charts are established from a single tick, and will be turning points on all lower time-frame charts. Therefore, there will be times that you might want to enter trades simultaneously, with all 5 types of trades in mind, assuming you have enough capital in your account and enough emotional strength to handle it.

27. Stalking the trade:

Hunting for the correct trading setup before entering a trade is extremely important. If you are a serious hunter of game, you will not go off half-cocked, but will be careful to plan every detail. The same applies in successful trading. **If you are looking for a selling opportunity, first look for the internal technicals, like Stochastics ** and Momentum **, to be progressing toward an overbought status, while the market is closing outside of the Upper Bollinger Band ** at least once, if not several times, without showing a reversal.**

** See the Chart below for an example of these technical tools.

Notice how high Stochastics and Momentum are getting toward the end of November at Point "A".



Finally a high bar will emerge. (See setup at point "A" on the chart.)

Ideally the High bar will turn out to be a relative average range bar. In the example at point "A", the bar was not a narrow range bar, as the range was 10 cents, (\$5.36-5.26) which is about 125% of the average daily range for November Soybeans (SX). The first bar that closes below the Low of the preceding High bar is the **Trigger Bar**. (See point "B"). In this case, Point "B" was actually 5 bars after the High bar. The Low of the High bar was \$5.26, and the close of the **Trigger Bar** at point "B" was \$5.25. The narrower the range of the High bar the better, because the reversal set up by the **Trigger Bar closing below the Low of the High bar**, will usually allow you to enter above the Midpoint of the Bollinger Band. If the close of the **Trigger Bar** is below the Low of the High bar by more than 1/2 the range of the High bar; be skeptical of taking the trade. This often means the price will be too close to the Midpoint of the Bollinger Band to be a good trade.

Stalking the trade continued:

In this case, point "B" was only 1 cent below the Low of the High bar and it was still 7 cents above the midpoint of the Bollinger Band. In this example, a position entered short (selling) on the **Trigger Bar** will be your first position. ("A" was the High bar and "B" was 1 cent less).

Then on a test of the reversal, if it occurs (price moves back toward the range of the High bar), two more contracts may be added. (See point "C"). Ideally, the price at point "C" will be in the middle of the range of the High bar. (\$5.31 in this case). Finally, three more contracts may be sold on a test of the Upper Bollinger Band, if it occurs (didn't happen in this chart, but would have been at \$5.37). The test of the Upper Bollinger Band, if it occurs after the close below the High bar, (**Trigger Bar**) often will be a double top or a new High. If it is a new High, it usually will not be above the Upper Bollinger Band by more than a few ticks. The close of that time bar should not be higher than the High of the High bar, or above the Upper Bollinger Band, whichever is higher. In this example, if the market had traded up to \$5.37, your stop on all 6 positions will be on a close above the Upper Bollinger Band, or above \$5.37.

In the example shown, 3 short contracts (sales) were entered at an average price of \$5.29. Your costs for 3 contracts, if paying full commission, plus \$50 per contract profit added for good measure, would require you to exit 1 contract about 7 cents below the average entry price of \$5.29, or at \$5.22. That would have been accomplished at point "E" when price fell to the midpoint at \$5.22, 3 days after point "C". After covering your costs at point "E", your stop on the remaining 2 contracts should be lowered to be just above Point "C".

A second contract would have been exited at Point "F" on the reversal and the stop on the remaining contract would be lowered to the first close above the Midpoint. The third contract would have been exited at Point "G" at the next reversal, **the reversals being on a close above the High of the ongoing Low day.**

This trade was near the ideal setup. Since it occurred on a daily chart, the trade was intended to be a LT or a SLT trade. This type of setup happens often on short-term charts of 60-minutes or less, but obviously, it doesn't happen all the time. When you are able to enter with this type of trading setup, you end up with an average price very near the top, and it allows you to exit in three different intervals.

28. Staying with the trend:

Taking profits too soon is always a big temptation. Part of your plan must be to know when breakeven targets have been met, so you can exit 1/3 of your positions with all your capital in hand. Then let the remaining positions continue until the trend on the time frame chart that you are trading reverses, based on the example above.

29. Sticking with the original type of trade:

If you enter a trade with the intentions of it being a DT, close it out at the end of the day, assuming that neither your profit objective or your stop were hit during the day. Changing your mind about the type of trade you are in by keeping it over-night and changing the trade from a DT into a STT or even longer, is not wise. In order to keep your discipline and focus intact, stay with your original plan.

30. Trading in sync:

It is important to balance the internal technical structure of the market with the fundamentals so they are working together for you as you enter a trade. There are legions of methods and systems you may use to determine when or how to initiate a trade. Fundamental analysis will win out in the long run, but if your timing is off, you will have to put up a lot of margin in order to hold the trade, and that can be self-defeating. You will find it immensely helpful to take the time needed to study the internal technical structure of the market, even if you rely primarily on the fundamental approach. For example, if you think Soybeans are going to have a shortage in supply before the next harvest from South America arrives, you will want to buy May Soybeans near the harvest Low, which usually occurs in October. When trading in sync, and if you want to buy into the market, you should wait to enter this market from the long side when the daily and hourly May Soybean chart is in an oversold condition, not in an overbought one. Entering long, when the Stochastics are above 80% and the market has been closing outside of the Upper Bollinger Band on the charts, is an open invitation for the market to set back, thus causing you immediate margin problems.

31. Understanding the chart patterns:

All commodity charts, in all time frames, experience patterns. These patterns repeat themselves over and over again, but usually not in the same sequence or the same exact size. Understanding how these patterns usually unfold allows you to have insight into what to expect before it happens. Learning how to recognize these patterns before they are completed is much easier for some forecasters than for others. Some consider this to be a gift, or an art. Persistence in working on pattern recognition will be beneficial to you.

32. Why experience is your best teacher:

Nothing can take the place of experience. Obviously, it takes actual trading to get experience and we all react individually to our experiences. You can read about trading until the end of time, but until you actually do some trading of your own, it is impossible to totally embody the concepts discussed above into your own personal trading style and experience.

This list is not all-inclusive, but it should provide you with enough background to help you become aware of the need for hard work and a steady consistent focus. Trading futures is very demanding and difficult. Hopefully, these guidelines may be beneficial to you.

To summarize, Plan The Trade & Trade The Plan!

If you have questions or comments, please feel free to contact me.

C&S Grain Market Consulting

William C. Fordham

24704 2200 E ST

Ohio, IL 61349

815-376-6101

E-mail: wilmar@theramp.net

C&S GRAIN MARKET CONSULTING

Trading Log Worksheet

Why? #	Reasons To Enter A Short *	Why? #	Reasons To Exit A Short *	Why? #	Trading Observations
1	Major Candlestick Reversal	1	Major Candlestick Reversal	1	Trade Went as Expected
2	The Setup is in Sync	2	First 1/3 to Cover the Cost of the Trade	2	Followed the Plan
3	Close Below the Low of the High Bar	3	Second 1/3 at the Lower Bollinger Band	3	Didn't Follow the Plan
4	On a Test of the Low of the High Bar	4	Last 1/3 on a Close Above the High of the Low	4	Didn't Have a Plan
5	On a Test of the Upper Bollinger Band	5	End of the Trading Period	5	Ran Out of Time
6	Price Met the Parabolic Stop	6	On a Stop	6	Failed to Use a Stop
7	Filling a Gap	7	Filling a Gap	7	Price Went Right Through the Gap
8	On a Chart Breakout	8	On a Chart Breakout	8	Didn't Act Fast Enough
9	Reaching a Major Moving Average	9	Reaching a Major Moving Average	9	Afraid to Act
10	Reaching Major Chart Resistance	10	Reaching Major Chart Support	10	Put the Stop Too Close
11	Reaching a Major Trendline	11	Reaching a Major Trendline	11	Put the Stop Too Far Away
12	At a Double Top	12	At a Double Bottom	12	Changed the Type of Trade
13	At a Major Gann Number	13	At a Major Gann Number	13	Complacently Set In
14	At Major Fibonacci Resistance	14	At Major Fibonacci Support	14	Too Greedy
15	Swing Price-Objective is Met	15	Swing Price-Objective is Met	15	Too Impatient, Tired of Waiting
16	Scale-Up Long-Term Selling	16	Scale-Down Profit Taking	16	Unable to Fill the Order

Trade	In B/S	# Chart T,H,D,W,M	** Type of Trade	Symbol	Date	Order Price	Filled Price	Enter Why? #	Stop	Price Goal	Out B/S	Date	Out Price	Exit Why? #	Gain	Loss	Observations Why? #	
1																		
2																		
3																		
4																		
5																		
6																		
7																		
8																		
9																		
10																		
11																		
12																		
13																		
14																		
15																		
16																		
17																		
18																		
19																		
20																		

* Reverse Reasons If Entering Or Exiting Longs # Charts: T=<1 Hour; H=Hourly; D=Daily; W=Weekly; M=Monthly
 ** DT=<1Day; STT=<1Week; ITT=<1Month; LTT=>1Month; SLTT=>1Quarter