



## 50 Trading Principles

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It is vital to have a trading plan when investing your hard earned capital. Many of these lessons may seem elementary, but what fascinates me is talking to fellow commodity traders over the years and finding there is still a lack of discipline.

Below you will find some common disciplines that as a Commodities trader you should abide by in most instances. Ironically this list was compiled from a pamphlet printed 30 years ago entitled; “How Young Millionaires Trade Commodities” and virtually all the principles still apply. Supply and demand still rule the roost in determining pricing in commodities. Over the years the dynamics have certainly changed, but what hasn’t is human behavior, and the effects of greed and fear in the trading community. That is why principles that worked 3 decades ago still apply in today’s market.

1. **Use money you can afford to lose** – always trade with risk capital
2. **Know yourself-** be disciplined, always controlling your emotions
3. **Start small** – do not over commit until you learn the mechanics
4. **Don’t over commit** - always keep excess margin in your account
5. **Isolate your trading from your desire for profit** – try to eliminate “hope” from your trading plan
6. **Don’t form new opinions during trading hours** – do not let day to day fluctuations change your overall plan
7. **Take a trading break-** trading everyday may cloud your judgment
8. **Don’t follow the crowd-** if everyone is leaning one way it is most likely the wrong way
9. **Block out other opinions** – do not be influenced by others once you form an opinion
10. **When you’re not sure, stand aside-** it is ok to be in cash and not in the market
11. **Try to avoid market orders-** always using market orders to buy and sell shows a lack of discipline
12. **Trade the most active option month** - look for where the open interest and liquidity exists
13. **Trade divergence between related commodities** - large divergences within the same sector generally present an opportunity
14. **Don’t trade too many commodities at once** – following several markets at once is difficult and usually costly
15. **Trade the opening range breakout** - breaking out of the opening range generally sets the tone for the direction of the coming move
16. **Trade the breakout of the previous day’s range-** this helps getting in and out of positions

17. **Trade the breakout of the weekly range** – again like the daily breakouts use breakouts as buy and sell signals
18. **Trade the breakout of the monthly range** – the longer time frame the more market momentum behind your trading decision
19. **Build a trading pyramid** – when adding to a position add fewer contracts than your base commitment
20. **Never put your entire position on at one price** – let the market prove you are right
21. **Never add to a losing position** – adding to a loser only adds to a mistake
22. **Cut your losses short**- admit when you are wrong, it is a part of trading
23. **Let profits run** – do not get out for the sake of taking a profit, have a legitimate reason why you are closing a position
24. **Be impatient with losing positions**- never carry a losing position for more than 2-3 days and never over a weekend
25. **Learn to like losses**- they are a part of the business so accept it
26. **Use stops orders cautiously** – place or at least know where your stop is when you enter the market
27. **Get out before contract maturity** – do not stay in during delivery because increased volatility
28. **Ignore normal seasonal tendencies** – too many people are aware/ remember you are looking for an edge
29. **Trade the divergence from normal** – trade against what is expected by most
30. **Avoid picking tops and bottoms** – do not buck the trend
31. **Buy bullish news, sell the fact** – buy the rumor and sell the fact(playing reports)
32. **Bull markets die of overweight**- pay attention to bearish news when bull markets look top heavy
33. **Look for the good odds** – look for trades that have a favorable risk/reward dynamic
34. **Always take windfall profits**- take quick profits and run
35. **Learn to sell short** – markets often fall faster than they rise
36. **Act promptly** – futures are not for procrastinators
37. **Don't reverse your position** – do not make a 180 degree turn on losers
38. **Don't be a nickel and dimer**- trying to squeeze that little extra out of the market can be costly
39. **Know the price trend**- use charts to identify trends
40. **Watch for key breakouts through trend lines**- use trend lines to determine breakout points and to help with order placement
41. **Watch for 50% retracements of a major move** – markets have tendency to retrace 50%
42. **Use the half way rule when picking buy-sell spots** – inside of a price channel sell the upper half and buy the lower half
43. **Watch the magnitude of market change**- smaller bars on charts can be early indicators of a trend reversal
44. **Congestion areas mean support or resistance** - when price movement slows there is indecision
45. **Major moves frequently climax with a key reversal** - a significant high or low can be made on trend reversals
46. **Watch for head and shoulder formations**- this pattern is very accurate on changes in trend
47. **Watch for “M” tops and “W” bottoms** - recognize these patterns they are useful and happen often
48. **Trade triple tops and bottoms** - incorporate this into your trading arsenal as triple tops and bottoms generally serve as solid support and resistance levels
49. **Watch volume for price clues** - volume up and price up buying confirmation, volume up and price down selling signal, volume decreases look to stand aside
50. **Open interest may be a tip off**- use open interest increases and decreases much like volume as buying and selling signals

I would suggest reading this not just once but reviewing this list frequently. As basic as many of these lessons may appear, it is the trader that sticks to his/her guns while incorporating control and restraint into their trading philosophy that will reap the most rewards. Commodity trading is not about being right all the time or hitting homeruns, it's about those 3-4 special/unique trading opportunities that really make your year. Most of your trades will be losers and recognize that most investors in commodities lose money. Everyday investors can and do lose money trading...do you have what it takes to separate yourself from the herd?

*The list above was from a 1978 booklet entitled "How Young Millionaires Trade Commodities" published by "Commodities, The magazine of Futures Trading"*

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Risk Disclosure: The risk of loss in trading commodity futures and options can be substantial. Before trading MB Wealth recommends that you should carefully consider your financial position to determine if commodity trading is appropriate for you. All funds committed should be purely risk capital. Past performance is no guarantee of future trading results. There are no guarantees of market outcome stated, everything stated above are our opinions. Calculations of profit and loss have not factored in commissions and fees.