STEALTH

TRADERS

Avoiding the Top 5 Mistakes Traders Make

When you're trading, the competition is fierce. You need to do everything you can to increase your odds of success. Just as important, you need to stop doing anything that reduces those odds. Pay close attention to these Top 5 Mistakes Traders Make and avoid them at all costs. It could have a significant positive impact on your trading results.

5. Poor Account Management

Many traders blow through their accounts quickly. In order to win in the market, you must first survive. The first rule here is not to go all in at any particular time. All in may be a useful poker strategy at times. But, not with trading. It doesn't matter if all your reliable indicators are giving you an extremely positive "go" signal. Anything can happen, and you don't want to leave yourself wiped out.

The best strategy is to determine what percentage of your account you're willing to put at risk at any particular time, and stick to it. Obviously, the less you risk, the longer your account will potentially last, yet the slower it will potentially grow. Only you can determine your risk/reward comfort zone.

The amount you're risking in any particular trade is determined by the number of contracts multiplied by your stop (in ticks) multiplied by the tick value. For example, if you're trading 4 ES contracts, with a stop of 8, then you're risking 4 x 8 x $12.50 = $400. What percentage is that of your trading account?

Keep in mind that slow and steady wins the race. So when it comes to account management, it's best to err on the side of conservatism. Whatever you determine, stick to it. As your skills and winning percentage increase over time, you can adjust your risk/reward ratio. When you set a new level, stick to it.

Another helpful strategy is to set a maximum daily loss amount. If for some reason, you lose a few trades in a row and reach your daily loss limit, stop trading. You may be tempted to gain it right back, but then you're trading with emotion, which isn't wise. Better to cool off and start back again fresh the next day. And don't be like the U.S. government that can't rein in its spending and constantly raises its debt ceiling. If you're constantly raising the ceiling, it's not a ceiling. So, stick to your account management plan.

4. Lack of Discipline and Accountability

When you trade, you're entering an arena full of automated algorithms and seasoned professionals. It takes a certain mindset and two important characteristics in order to compete successfully. Whether you're trading the stock market, futures, Forex or options, practice them and you can not only survive, but thrive in the market. And beware, because lack of discipline and accountability will surely lead to downfall.

Discipline

Don't think of discipline as in "50 Shades of Grey" where you submit to the whims of others. Think of discipline in the martial arts sense, adhering to a time-tested solid foundation without distraction.

Discipline involves patience. Undisciplined traders often get bored waiting for a precise signal, and enter trades that are pretty good just because they've been staring at a screen for so long and crave some action of any kind. Do not trade pretty good entries! They most often turn into pretty bad entries. Have the patience to wait for the best signals. There may be days when the signals are not the best. If that's the case, let them pass. It's not a reason to trade lesser signals.

Discipline involves precision. Become a trader with the mindset of a machine. You don't want to be on the back of a military vehicle with a submachine gun spraying in the direction of anything that moves. You want to be like Chris Kyle, picking off high value targets with a sniper rifle. Arming yourself with the proper precision tools is just as important as your mindset. A brain surgeon works with a scalpel, not a chainsaw, to perform at the highest level of precision.

Discipline involves adhering to the rules... the rules you've set out. If you decide to only trade certain setups, stick to it. If you decide to trade only at certain times of day, stick to it. Whatever you decide as your trading parameters, stick to them. You can always decide to change or expand them, but do so after some deliberation, not on the fly.

Discipline involves leaving out emotion. Do not trade if you're feeling anxious. Often after a bad trade, the natural instinct is to want to immediately win back what you just lost. Regroup. Collect yourself. Jumping back in will only make your trading day even worse. Stick to your disciplined plan. Another solid opportunity will come along. Also, sometimes we're under pressure to earn a certain amount each day by trading to make a living. Leave that pressure at the door. And likewise, don't let a bad day cause anxiety at your trading desk the next day. Keep in mind that you need only average a certain amount per day. Bad days happen. It's your overall that matters.

Do not trade, or not enter a trade, out of fear. It's natural to have a little fear or anxiety when putting money at risk in a trade. Yet, sometimes we see a great signal, but are afraid to pull the trigger. This happens more often with new traders. Trust your system. If you notice this fear regularly, take smaller steps. Set targets at fewer ticks until you build up more confidence. If your system is solid, there's no need to fear trading with it. If your system is not solid, you shouldn't be using it at all. Also, you may be exiting trades too early out of fear. Scalping and using small targets are legitimate trading strategies. Yet, if you have a system that's telling you the trade is going to run a little longer, let it run. Getting out too early leaves money on the table. Again, only let trades run if your system indicates it. Otherwise, you're correct to get out.

Keep other emotional matters out of your trading room as well. For example, if you had an argument with your spouse and you can't focus because of your anger, don't trade. Cool down, put it out of your mind. Ideally, resolve the issue first. Just don't let it enter your trading room.

Discipline involves consistency. If you're starting out, stick with a few instruments at first until you get consistent results. Then you can expand from there, by trading other instruments or adding on more contracts.

Why is discipline so important? Being disciplined will give you consistent results. Waver and your results will waver. Often, lack of discipline will lead to unintentional self-sabotage. You wouldn't want to enter a martial arts tournament without being disciplined. Likewise, do not enter the trading arena without it.

Accountability

Accountability is taking responsibility for your actions. In trading, it's being responsible for the trades you make. There's no one else to blame. Not market conditions, not your neighbor's barking dog, not your data provider. If trading conditions aren't right, don't trade. Sit out and wait until you have the right trading conditions.

Accountability is learning from your trades. If you make a bad trade, don't get upset. Look at it as a learning opportunity. Why did the trade go bad? Did you misread the entry signal? Was it not the best possible entry signal? Did you get in too early? Too late? Was your stop too tight? Were you distracted physically or emotionally? Is your system not as reliable as you thought? Use the answers to improve your trading. You can also learn from your good trades. What did you do right? What could you have done better?

Accountability is also prudently managing your account, as discussed above.

Discipline and accountability may seem like common sense. Yet, if it is, it's not commonly practiced. Make sure to adhere to them, because if you practice discipline and accountability, you give yourself the best possible shot at winning in the market. And without discipline and accountability, you're sunk.

3. Poor Trade Management

Many traders are so focused on when to enter a trade, they don't give equal attention to what to do once in a trade. Overly loose stops, or no stops, can rack up big losses if the trade goes against you. Conversely, overly tight stops can stop you out of a good trade in temporary flux. Also, your system should provide you with reliable targets. Exit or adjust your stops as targets are reached. Use multiple timeframes to detect any changes in momentum. And, don't get greedy. If you have a nice profit, take it. Other opportunities will come along.

Set Stops

Not every trade is going to go your way. We've all experienced it many times before. Setting stops is of the utmost importance to protect yourself from a serious loss. It's like buying insurance. Anything can happen during a trade. You could be long and there's a sudden sharp drop, and by the time you get out, well your account could be in seriously bad shape, or even wiped out. Does this scenario happen often? No, but it does happen, and you don't want to be left holding the bag.

It is true that when you set a stop, other traders can see it. Yes, some traders may try to trigger your stop. But the risk of a severe loss overwhelmingly outweighs the loss from the possibility that other traders may target your stops. So, make sure to set a stop, or suffer the consequences.

Set the Right Stops

Stops should neither be too loose, nor too tight. A stop that's too loose will increase the losses you incur if a trade goes against you. Yes, you want to give the trade a chance to breathe. But, if you feel the need to have a loose stop, then you should rethink your entry strategy.

If your stop is too tight, you're likely to get stopped out before your trade has a chance to move in your direction. As you can see, there's a delicate balance to setting the right stop.

Also, keep in mind that stops are relative, meaning that different timeframes will require different stops. On a 512 tick ES chart, you should set your stops 6-8 ticks behind the entry signal. Whereas, on a 3200 tick ES chart, you should set your stops 10-12 ticks behind the signal. So, it's important to take into account the timeframe on which you're entering a trade.

And also keep in mind that some instruments, like GC, are more volatile and thus require looser stops. So, be aware of volatility when setting your stops.

Stick to Your Stops

Here in California, drivers are famous for rolling through stop signs. If you do that when you drive, you definitely don't want to do it when you trade. If you set a stop, don't extend it as the trade progresses against you. It's tempting to think "Oh, the trade is just about to turn my way, it just needs a little more room." DON'T DO IT! That's a slippery slope you don't want to slide down, because it leads down a dark path. Is it possible your trade could turn around if you just opened up your stop a little? Yes, but odds are you're going to lose a lot more money in the long run by extending your stops. Stick to your stops or your stops will stick you.

Set Trailing Stops or Targets

Of course, it's ok, even advisable, to move your stops closer when your trade goes into profit (a trailing stop). You can do it manually as you watch the trade, or with most trading platforms, you can pre-set trailing stops. Locking in profit as the trade develops is crucial to trading profitably. Like regular stops, too loose and you may give back most of your gains. Too tight, and you may prevent further gains. Either too loose or too tight can also turn a gain into a loss.

The best way to prevent a loss when the trade goes your way, while also giving it room to move, is to use a profit stop. Once the trade goes into profit, move your stop a couple of ticks beyond break-even. You can then use trailing stops from there.

Targets are also key for reaping trading profits. The tradeoff is that you may not get the whole move. However, if a target is hit, you're guaranteed profit. If you make several trades a day, the profits can add up. Setting targets depends on your trading system and how far the system indicates the move might accelerate. You can also keep things really simple by just using the same target all the time. But keep in mind, as with stops, larger timeframes should have higher targets.

If you're trading multiple contracts, you can set staggered targets, where each contract has a different target. For example, if you're trading 3 contracts of CL, your first target could be 8 ticks, second target 12 ticks, and third target 18 ticks. Or perhaps you can manually manage the third target with trailing stops. Whatever combination works for you, so long as you're locking in profit.

2. Trading When You Shouldn't Be in the Market

It's a simple rule that's widely overlooked: If there's no trend, don't trade. Like knowing when to fold in poker, knowing when to stay out of the market is just as, or even more, important than knowing when to jump in. Even if you're countertrend trading, you want to make sure there's a longer term trend (on a higher timeframe) you're going with. If the market is in consolidation or chop, sit out. Wait for the market to show you a trend.

You also shouldn't be in the market when there's extreme volatility, because you'll likely get stopped out in a flash. Avoid entering trades right before or after FOMC minutes announcements, especially highly anticipated ones. The same goes for the release of anticipated economic reports or other news that's likely to cause high volatility. Similarly, it's not wise to trade stocks or options right before or after a company's quarterly earnings report.

1. Relying on Inaccurate Signals or Antiquated Studies

MACD crossover may have worked for your grandfather, but times have changed dramatically. The markets now consist mainly of automated algorithms, which renders most traditional trading signals obsolete. If you're still using them, you're doing your trading a severe disservice. Ask yourself, how accurate is your system? If the entry signals are leading to too many poor trades, it's time to find a new system. Do some research. Avoid systems based on antiquated studies.

At Stealth Traders, we offer proprietary trading indicators, the Stealth Scanner and comprehensive 1-on-1 training, all based on 30 years of successful trading experience. Designed to increase your trading success by helping you

- enter only the highest percentage moves
- stay out of bad trades, and
- maximize your profits with expert trade management.

For more info, go to http://stealthtraders.com.

When trading, you literally can't afford to make mistakes. With your hard-earned money on the line in the market, there's a thin margin of error. Avoiding the above mistakes will give you the greatest chance for success.

Best of trades.