SUMO FX

forex training

Forex Trading as a Business

Trading Rules

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Disclaimer

Trading in the Forex market is a challenging opportunity where above average returns are available to educate and experienced investors who are willing to take above average risk. However, before deciding to participate in Forex trading, you should carefully consider your investment objectives, level of experience and risk appetite. Most importantly, do not invest money you cannot afford to lose.

There is considerable exposure to risk in any foreign exchange transaction. Any transaction involving currencies involves risks including, but not limited to, the potential for changing political and/or economic conditions that may substantially affect the price or liquidity of a currency.

Moreover, the leveraged nature of FX trading means that any market movement will have an equally proportional effect on your deposited funds. This may work against you as well as for you. The possibility exists that you could sustain a total loss of initial margin funds and be required to deposit additional funds to maintain your position. If you fail to meet any margin call within the time prescribed, your position will be liquidated, without prior notice to you, and you will be responsible for any resulting losses. Investors may lower their exposure to risk by employing risk-reducing strategies such as “stop-loss” or “stop-limit” orders.

Trading Rules Introduction

This is one of the most important parts of the Trading Plan. The Trading Rules set out here are the Code of Conduct by which you run your business, and must be followed with very strict discipline.

Proclamation on "The Use of my Trading Rules":

- Every morning over breakfast and coffee, I will read through these rules, however much of an inconvenience it may be.
- I will not start any trade analysis or trade activities until I have read through each of my Trading Rules.
- My Trading Rules will always be displayed at my trading station.
- After a loss I will again first read through each of my Trading Rules.
- I will follow my Trading Rules with the utmost discipline every single day, in every session with every trade I execute.

Trading Psychology Rules

The following set of Trading Psychology Rules are designed to keep a trader disciplined, objective and in control of his/her emotions. The right frame of mind while trading will result in more profitable trades and less losing trades, which in turn will produce consistent positive results in the long run. The opposite can, and eventually will result in a trader losing part or all of his/her trading capital.

1) Always act in your Own Best Interest

This is the golden rule of Trading Psychology. The nature of trading in the financial markets is inherently stressful. Every decision you make as a trader should always be done with your own best interest in mind which ensure personal, physical and mental health. This will result in a trader with a calm and objective frame of mind.

2) Be an Objective Trader

Trading decisions should be based on what the markets are doing and showing you, and not what you think or want the markets to do. Never force your will on the markets because the markets don’t care or discriminate. The markets are always right.

3) Be a Disciplined Trader

A successful trader will have a carefully designed Trading Plan, Trading Rules and Trading Strategy with the ability to adhere to these guidelines with strict discipline. Disciplined trading cultivates consistent results that generate long-term profitability.

4) Remain Calm and Relaxed

In order to be an objective trader you must remain calm and relaxed to be able to make the correct decisions that are in your own best interest. A calm and relaxed frame-of-mind is achieved by being a disciplined trader which will result in self-confidence. Never trade when you are not in the right frame-of mind, which may be a result of being tired, stresses, hung-over, etc.

5) Set and Accomplish your Goals

Never chase money. Set realistic, attainable goals that can be measured on a Daily, Weekly, Monthly and Annual basis. Money will be the by-product of achieving your goals.

6) Think Success

It is a proven scientific fact that the human mind is powerful enough to influence the outcome of everything you do every day. If you focus on your losses too much you will create a “Losing frame of mind”. Focus on being a winner by visualizing your success as a trader in order to breed a “Winning frame of mind”.

7) Be an Active Winner and Loser

Indecision, fear, greed and desperation can paralyze a trader and promote extensive losing streaks. Treat trading as a serious business and be actively involved in making decisive decisions while trading that will be in your own best interest. Always act immediately to "Cut your losses short" and "Let your profits run". Not the other way around. Embrace positive emotions that will result in success, and reject negative emotions that will result in failure.

8) Learn to Love taking a Loss

It may seem like stupid thing to do. The fact is that the sooner you exit a losing trade the more money you save yourself. You therefore act in your own best interest. Accept the fact that you will take losses on a fairly regular basis. Manage these losses to minimize the risk on your trading capital and your profits.

9) Reject Fear

The fear of being wrong about a trade setup, taking a loss or the market suddenly turning on you may cause you to be indecisive and missing out on a trade, getting into a trade too late, cutting your winning trades short or, worst of all, letting your losing trades run. Reject and fight fear by being disciplined, objective and sticking to your Trading Plan, Trading Rules and Trading Strategy. By doing this you will gain self-confidence which is a much more powerful emotion than fear.

10) Never be Greedy

Being greedy is the opposite extreme of being fearful that will have the same end result. A greedy trader will abandon and bend the guidelines set in his Trading Plan, Trading Rules and Trading Strategy for the sake of chasing the "home run". Trading is a disciplined business that demands consistent results to be successful. Stick to your trading system and strive to achieve your goals, rather than chasing money.

11) Wishing, Hoping and Praying is Futile

Making poor trading decisions and then sitting in a tight bundle of nerves while you are wishing, hoping and praying that the markets will turn your way will result in ultimate failure. This is one of the most destructive traps of trading. It will destroy your confidence, breed fear, take a huge toll on your mental and physical health and will cultivate a negative frame-of-mind. Be an active Winner and Loser. Be objective, disciplined and act immediately on losing trades instead of waiting for the market to turn in your favour.

12) Never take Revenge

The market does not care about your losses or profits. If you take a loss and jump right back into the market to take revenge, then you are not being objective and are not acting in your own best interest. Even if it works out some times and you recover your loss, in the long run you will end up with big losses resulting in the inevitable complete loss of your trading capital. After a loss, review your trade execution to identify where you made mistakes and correct them immediately. In most cases you will find that you deviated from your trading system (Trading Plan, Rules and Strategy). Admitting your mistakes, learning from your mistakes and correcting your mistakes will develop you into a successful trader. Remember, the market is always right!

13) Be Yourself

Every person has his/her own unique personality. This has a direct influence on what type of trader you are. Develop your own Trading System which must include having a clearly defined realistic Trading Plan, Trading Rules and a properly tested Trading Strategy that suits your own individual Trading Style. What works for someone else may not work at all for you. Remember the golden rule of Trading Psychology – **"Act in your Own Best Interest"**.

Risk and Money Management Rules

The following set of Risk and Money Management Rules are designed to protect the trading account capital of a trader. Managing risk properly will minimize trading losses, while practicing good money management will maximize profits.

14) Protect and Preserve your Trading Capital

This is the golden rule of Risk and Money Management. Always protect and preserve your Trading Capital. Without any trading capital you cannot run your trading business. It is in your own best interest to protect your equity and your profits at all time by practicing your Trading Rules with strict discipline.

15) Respect your Account Leverage

You are trading with a margin account with a specific allocated Account Leverage. This is a tool that must be used with the utmost care and respect and must never be abused. Always remember that you can lose money just as quick as you can make money with your Account Leverage.

16) Respect your Maximum Allowed Risk Factor

Never exceed your maximum allowed risk factor on the total amount of trades open at any given time. It is there to protect you against big losses. ALWAYS apply your Risk Factor through the use of Stop-Loss orders.

17) Respect your Maximum Allowed Trade Size

Never exceed your maximum allowed Trade Size. Your trade size is directly proportional to your risk factor. Exceeding your trade size will mean an automatic increase in your risk factor. This will not be in your own best interest, and will ultimately expose your trading capital to increased risk.

18) Respect your Projected Profit Targets

Your projected profit targets are calculated to stimulate consistency. Do not be tempted to overtrade and chase bigger profit targets. This will result in promoting greed, which will ultimately result in sustained losses.

19) End every day in Profit

The goal of each trading day is to end the day in profit by achieving the daily profit target and then stop trading. Do not overtrade. Review and evaluate your progress through the day, stick to your trading system and pace yourself to achieve the daily profit target by taking smaller profits throughout the day.

20) ALWAYS use Stop-Loss and Take-Profit Orders

ALWAYS use Stop-loss and Take Profit orders when initiating new trades. Do not deviate from your trading system and widen your stop-loss range. Only increase your Take-Profit target if your trade has produced a reasonable profit, and you move your Stop-Loss to break-even or better if you have determined with certainty that the market may move further in your favour. Any increase of the Take-Profit target must be done in small realistic increments and accompanied by an increase of your Stop-Loss order (Trailing Stop).

21) Cut your Losses Short – let your Profits Run

This rule adds to Rule 20. Be active while in a trade by continuously monitoring the progress of your trade and acting to cut losses short and let your profits run. If you identify that the market will hit your stop-loss you do not have to wait for the trigger, but rather immediately close the trade manually. On the other hand if you identify that the market is going to move further than your take-profit target, act immediately and move your take-profit target within the boundaries of Rule 20.

22) Never turn Winners into Losers

When the market moved favourably on your trade and the trade is in a reasonable profit, activate a Trailing Stop (Manual or Automatic) to lock in that profit. Continue to move your Trailing Stop in conjunction with your Take-Profit to lock in profits as the trade develops.

23) Never Add to Losing Trades (Average Down)

When the market has moved against your trade, do not add to the losing trade (buying or selling) to attempt to average out the loss. This will only put you under more pressure and generate more stress, which will ultimately lead to increased losses. Rather close the losing trade immediately it is identified as such, and prepare for the next trade opportunity.

24) Scale Down after a Loss

When a loss occurred, first review the losing trade and determine where the mistake occurred, read each of your Trading Rules again, and then enter the next trade opportunity by scaling down your risk factor and trade size. This will allow you to be calm and relaxed and a few smaller wins will boost your confidence. When you are in the right frame of mind again you may continue with your standard risk and trade size allocations.

25) Stop Trading after Three Consecutive Losses

If you have three consecutive losses, cease all trading activities for the day immediately and walk away from your trading environment. Go to the beach, have lunch with a friend or go watch a movie. The point is to forget about trading for the rest of the day. The next day, before you start with that day's trading activities, first analyze your losing trades, identify where you made mistakes and correct those mistakes. Read your Trading Rules slowly and carefully again!

Trade Activity and Execution Rules

The following set of Trade Activity and Execution Rules are designed to objectively plan and manage the entry and exit execution of trades. A poorly planned trade entry can quickly turn into a losing trade, while a poorly executed exit of a trade can cause a loss of potential profit.

26) Plan the Trade – Trade the Plan

This is the golden rule of Trade Activities and Execution. Always perform the required Analysis and Trade Setup Identification as prescribed in your Trading Strategy. Never storm into the market shooting from the hip. Always plan your trading activities and execute the plan with strict discipline within the parameters of your Trading System (Trading Plan, Rules and Strategy).

27) Always Monitor and Respect Fundamental Events

Before any technical analysis or trading may take place you first have to check if any events may take place during the day that may have a big impact on the markets. Such events may determine if you will trade during certain times or not trade at all during that day. Events like the monthly US Non-farm Payrolls may create extreme volatility in the markets. During such events it would be best to just monitor the markets and only enter the market once it has stabilized. Important speeches from the big reserve banks in Europe and the US may cause volume in the markets to drop dramatically and may cause sporadic extreme volatility. Avoid having open trades during such events. Mark all important events on your Trading Calendar and act appropriately around such events. Important European news is released around 10:30 local time, and US news is released around 14:30 and 16:00 local time. Be careful around these times.

28) Don't Over-Analyze

Perform your Technical Analysis as prescribed by your Trading System. Try and keep it reasonably simple and don't over analyze the markets and clutter your charts with all kinds of irrelevant information.

29) Always Respect Trends

Always keep the trend of your longer time-frame charts in mind. Never trade against the dominant trend. Don't guess or gamble when a trend will reverse or continue. Always wait for confirmation before acting on a signal.

30) Never Ignore Key Support and Resistance Levels

Price action always moves between support and resistance levels and will pause around these levels. Always monitor the movement of price action around these levels and enter or exit your trades at these levels, unless you have a bad trade, in which case you act immediately and close the trade.

31) Always Trade the Strategy

Your Technical Indicators and your Trading Strategy have been constructed and tested to be used in the prescribed way. Follow your Trading Strategy with discipline to achieve consistency. Don’t trade mixed signals just because you have a hunch the market will move in a certain direction or because you don’t want to miss out on the move.

32) Be Patient, Be Smart

Be patient and wait for the market to meet the requirements of your Trading System before you execute the trade. Opportunities for trades will always present themselves. There is no point the trigger at every move the market makes. If market conditions don’t meet the criteria specified in your Trading System, then you simply don’t trade. Just as you don’t want to turn a winner into a loser, so you must not create a loser to start with.

33) Always Execute Trades “By the Book”

Never ignore the rules prescribed under the “Risk and Money Management Rules” section of your Trading Rules. They are meant to protect your trading capital.

34) Exit Early when Required

If you initiated a trade and the trade is going nowhere within a reasonable time-frame, exit the trade as soon as possible, preferably at break-even or in profit, otherwise cut your loss short while it is still very small. Chances are you initiated the trade in a period where the market is in a very tight range. This is a warning sign that the market may move in any direction at any time. You cannot predict the future. If a trade does not feel right or you identify extreme low volumes in the market, it is a sign of uncertainty among traders. Do the smart thing and exit while you have the chance.

35) Always Keep your Records Up-To-Date

The only way you can measure the performance of your Trading System is by keeping an accurate and up-to-date set of records of all relevant information needed to analyze your Trading System and your personal performance. You cannot identify and correct a system that does not work if you cannot identify what exactly is going wrong. Using a system that does not work or may have serious flaws can and will hurt your trading capital.