Trading Commandments

By allain_r · May 21, 2020

TL;DR

This blog post outlines essential trading commandments for successful trading strategies. Key principles include prioritizing safety, following market trends, and developing a solid trading plan. Emphasizing emotional control and strategic exits, these commandments aim to enhance trading performance and risk management.

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Trading is an art form.

1. Safety First

- 1 to 3 risk/reward ratio

- Exit once strategy fails, do not rely on hope

  limit loss to 3%

- Loss is ok, boxers get hit

  mitigation is key, don't get knocked out

- Stick to the plan

2. The Trend is Your Friend

- Do not fight the trend

- Focus on the long term market

  day trading is less affected by the long term market

- The Golden Cross

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- The Bearish Cross

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3. Chop is NOT an Indicator

- Rely on patterns

4. Let The Trade Come To You

- Wait for confirmations

- Resist FOMO

- Don't chase a trade

- Control emotions and aggression

- The first entry is rarely the best

5. A Bad Strategy is Better than No Strategy

- A framework helps you learn

6. Aim Small, Miss Small

- Take profits off the table while they are still there

7. The Meat of the Move

- Do not worry about a perfect entry or exit

sell into strength

FAQ

What is the importance of a risk/reward ratio in trading?

A risk/reward ratio of 1 to 3 is crucial as it helps traders manage potential losses while maximizing gains. This ensures that the potential reward justifies the risk taken.

How should I respond to a failed trading strategy?

Once a trading strategy fails, it's important to exit the position immediately rather than relying on hope. Limiting losses to 3% is a key strategy to mitigate risk.

What does 'the trend is your friend' mean?

This phrase emphasizes the importance of aligning your trades with the prevailing market trend. Fighting against the trend can lead to losses, so it's advisable to focus on long-term market movements.

Why is it important to wait for confirmations before entering a trade?

Waiting for confirmations helps traders avoid impulsive decisions driven by fear of missing out (FOMO). It allows for more strategic entries based on reliable patterns.

What should I do if I have a bad trading strategy?

Having a bad strategy is better than having no strategy at all, as it provides a framework for learning and improvement. It's essential to refine your approach over time.