

Are Losses Piling Up?

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A trader emailed me this week, asking for some advice on a good money manager for him. He said he was a "lousy trader" and tired of losing money.

I doubt there is one non-rookie trader reading this story who has not experienced at least a small run of poor performance in trading futures. I've said before that most successful veteran traders have more losing trades than winning trades in any given year. The key is maximizing profits on the winning trades and minimizing losses on the losers.

I will also argue that at one point or another in most traders' experiences, they, too, have felt like "lousy traders." I certainly have. (Those who say they have never had a run of poor trading performance and felt "lousy" about a trade or trades are likely either lying or completely out of touch with futures trading reality.)

So what's a trader to do when losses start to pile up and winners become scarce. Here are a few tips that I've picked up over the years from some of the very best traders in the business:

- Don't overtrade. If you are trading several markets and not having any success, cut back to trading one or two markets. You can follow fewer trades more closely and document your success or failures more easily. Plus, your trading account won't be drawn down so quickly.
- Keep a detailed trading diary. If you keep a good trading diary, you can go back and see if there is a common thread among your losers--and your winners, and possibly make the proper adjustments.
- If you are not trading that many markets and still racking up losers, take a break from trading for a while. Gather your thoughts. You may want to "paper trade" for a while to get your confidence back. Then, if you are still losing on paper, you will want to look for other trading methods.
- If you are losing money trading, DO NOT (I REPEAT) DO NOT try to make a big home-run-type trade that will get you back to even or the plus side in a hurry. In fact, do just the opposite. Make smaller trades that risk less capital, until your performance starts to turn around and you can resume your normal asset allowances for trades. Successful traders survive the rough waters by hunkering down and being conservative.
- Exhibit patience and discipline. I've preached about this before. Are you following a trading plan that you devised before you put on the trade? If not, you should be. You are not shooting from the hip (no exit strategy in place) once a trade gets initiated, are you? If so, that could be part of your problem. On the patience issue, are you impatient? I've talked to successful position traders who may only trade a few times a year, because they wait for what they feel is that "perfect set-up" to occur. If you are a position trader (as opposed to a day trader), you don't have to be "in the market" all the time. Wait for the good trades to develop and don't chase markets.
- Be confident. Have faith in your trading methods. And if you don't have faith in your methodology, why don't you? If your methods are really not successful, find something else. Read some of the many books out there by

- the successful traders, and how they have traded successfully. But be cautious of the person who wants to sell you some so-called successful trading method for big bucks. (See the next item on hard work.)
- Work harder. Don't expect to produce winning trades if you are not working very hard at trading. Do you know well the fundamentals of the markets you are trading? Even if you know technicals well, you should have at least a good understanding of a market's fundamentals. Here's an example: Let's say the charts and technical indicators look bullish for corn and it's the day before a major USDA report. Smart traders likely won't initiate a trading position in corn the day before a big government report is out.

In case you're wondering what I told the reader who emailed me and told me was a "lousy" trader, here's what I said: Don't give up just yet. The fact that he admitted he needed some help (before he lost all of his trading assets) is a positive first step. I then told him I would write this feature because there were likely many traders who feel the same way, at times, that he feels, and that there are steps to take on the road to recovery and eventual successful trading.