

Optimizing the Futures Trading Guide for Better Trades

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Welcome!

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Trend Following Systems

Advantages

Simplicity: Trend-following systems rely on identifying the market's direction and placing trades accordingly.

Time Management: Trend-following systems typically require less time and attention than other trading systems. This can benefit investors with busy schedules and less time to actively manage their investments.

Robustness: Because trend-following systems don't try to predict market direction, they may be less affected by noise and intraday volatility.

Profitability: Trend-following systems can be profitable in various market conditions, bullish and bearish, as well as capturing significant fat-tail events.

Trend Following Systems

Disadvantages

Lags: Trend-following systems may not enter a position at the beginning of a trend and may miss out on some initial gains.

False Signals: Trend-following systems may generate many false signals in choppy and non-directional markets.

Large drawdowns: Trend-following systems can experience considerable and prolonged periods of losses, known as drawdowns, which can be difficult for investors to endure emotionally and financially.

Position Sizing

Market Volatility

X% of total equity account divided by Market Dollar Volatility

Market Dollar Volatility = 20-day ATR times the dollar per point value

Margin Requirement Rule

25-50% of total account equity divided by the initial margin requirement

Results in the total number of contracts

Pyramiding Add-on Rules

1. Enter base unit on new signal
2. Enter additional units after X days only if the trade makes profit highs
3. Stop additions after maximum position dollar risk are achieved

Pyramiding Risk Rules

1. Never add to a position until the position becomes profitable
2. Place stops at the breakeven level as position increases
3. Enter the largest position first and reduce the size of additional entries
4. Never let the position risk grow larger than the limits set by the system entry and by the maximum acceptable position size

Position Pyramiding Styles

1. Scaled-down size - Up pyramid - 8-4-2-1
2. Equal additions - Inverted pyramid - 10-10-10-10
3. Reflective pyramid - 8-4-2 \Leftrightarrow 2-4-8

Takeaways

When using the Futures Trading Guide as a system to trade in the futures market, it is essential to pay attention to risk management. This includes awareness of expiration and first notice days, price limits, margin requirements, and volatility risk.

Additionally, while the guide can be a helpful tool, it is important to keep in mind that it can also be subject to lag times in identifying new trends and the potential for large drawdowns due to a series of losses.

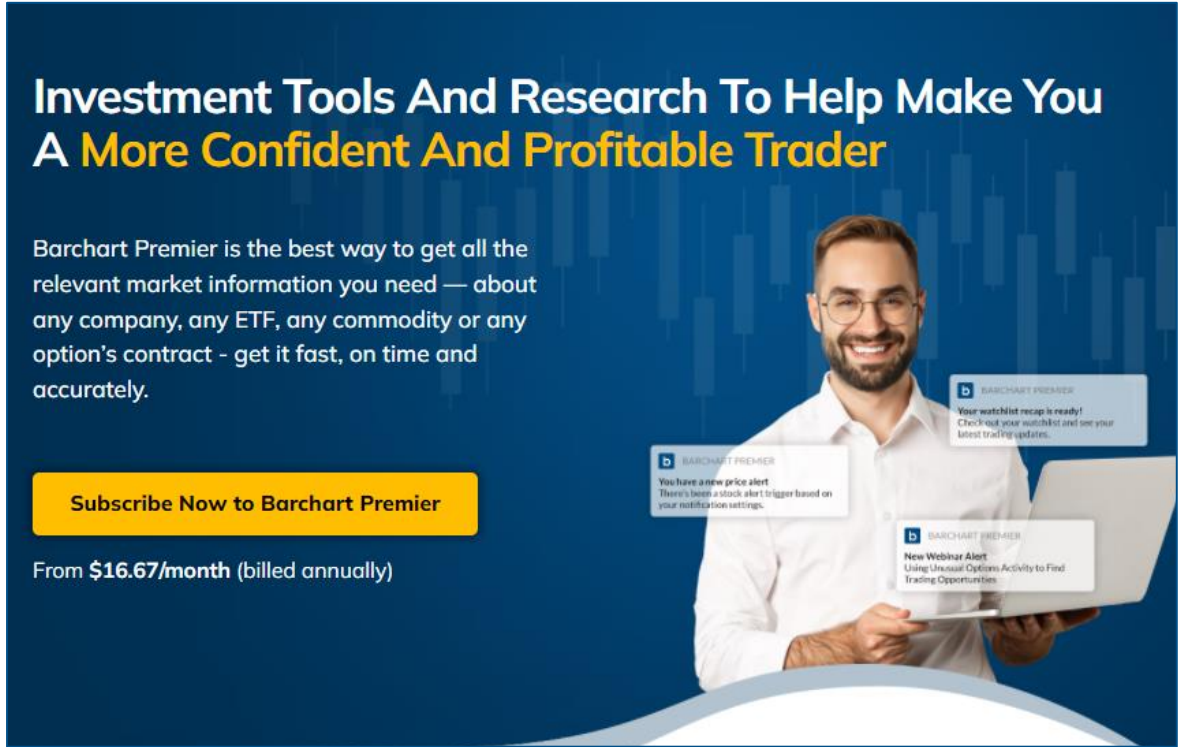
By keeping these potential risks in mind, the Futures Trading Guide can be profitable with its simplicity, effective time management, and the potential for fat-tail probabilities.

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