The crash of 1987 taught me a major lesson about the art of trading: Manage your risk first and worry about your profits second. I know from experience that when I manage risk, the rewards come. Trading requires a long-term commitment. You have to be persistent, learn from your mistakes, and continuously improve. That is why risk management is so important. If you do not preserve your capital you will not have the staying power that you need to master the game and reap the real profits.

Trading is a business. Just like any business, you have to manage it. Before you risk your first dollar, you must evaluate your personal financial situation. How much capital can you invest in this endeavor? Can you afford the potential loss? What is your age and what are the financial demands that face you. Consider these questions and others in the context of your big financial picture. Answer the questions honestly so that you are comfortable with the capital that you are investing in your trading business.

There are two reasons that you need to evaluate your risk tolerance. The first one is obvious; you must not risk money that you need for the mortgage or the car payment. We all know that such action is foolish. However, there is a second, equally important reason. As noted in the previous chapter, trading is a very emotionally charged profession. If you are risking
I have traded for many years. I have gone through fabulously lucrative times when my trading seemed golden. On the flip side of that I have gone through dark times when I felt like that foolish, impetuous and unsure teenager jumping aboard that slow moving freight train, lost in the midst of a dense dark forest. But, I have never given up. I know that the market is dynamic and ever changing. But I change with it. I read the tape, I follow the numbers, I have my strategy, and I execute it. Overall, my trading method works for me and keeps me winning the game.

LESSONS LEARNED

- Have a proven strategy. Know how you will approach the market.
- Execute your strategy skillfully.
- Do not enter the market unless you know where you will take profits and where you will place protective stops. Always know your risk.
- Use a trading method that acknowledges both fear and greed, and manages both.
- Remember that the markets are dynamic. Adjust your strategy when necessary.
money that you cannot afford to lose, you will not be able to concentrate on trading. You will be too fearful. Every time your account suffers a slight loss you will panic and be unable to rationally analyze the market and make a wise trading decision. Successful traders trade the numbers and let the market and not their fears guide their actions. Therefore, it is imperative that you be comfortable with the risks that you assume when you trade.

Next, you have to determine the cost of doing business. You will have to have the right equipment. Will you need to invest in a new computer? Do you want multiple computers and monitors? Personally, my system uses several monitors, but most of my students use only a single, laptop computer. At any rate, be certain that you have what you need or are prepared to purchase what you need. Also, you will need a data source. Trading requires up to the second, real time quotes that can be obtained for a monthly fee. Add this cost into your plan.

Then, there are your commissions. Commissions vary greatly from broker to broker. Some brokerage houses will overcharge and exact their pound of flesh. Shop around to get your best deal. Just remember that trading is not free. Don’t overtrade and keep your commissions as low as possible.

Also, you need to be well educated and trained. Read, research, study, and continuously learn and improve. I highly recommend that you obtain some training before you start trading. I teach day trading classes and there are other educational opportunities available. Find some and take advantage of them. They are not free. You may think that the cost is too great. However, if you try to trade without an education, you will quickly learn that ignorance is the real expense of trading.

Recently a friend of mine relayed to me an experience he had while boating. He was in the Gulf of Mexico when his craft suffered some mechanical problems. He radioed for assistance and learned that the cost for towing him into port would be about $1,000.00. Jeff considered the cost and determined that it was just too great. He could have easily afforded the price but did not want to pay it. He believed that he could baby the engine, catch the currents just right, and make his way into port and keep his money in his pocket. Seventeen hours later, an exhausted Jeff finally drifted into the dock.

Jeff is a professional and time is money to him. Yet, he foolishly wasted hours of his valuable time because he was pinching pennies. I think that his cost benefit analysis was flawed. He would have saved a lot of money by paying the towing fee and arriving home in a timely fashion. He would also have been more comfortable and less stressed.

A lot of traders are like Jeff. They cut all the wrong corners. They turn pale when confronted with the price of a trading course because they assume that with their intellect, they will discover the secrets of the markets unaided. Why pay for instruction when their innate genius will keep
them on track? (These folks need to read Chapter 11.) Intelligence—even genius—is not enough to beat Wall Street. At DTI, we always remind students that if they think the cost of an education is expensive, they should experience the cost of ignorance. Believe me, ignorance is expensive!

Educate yourself and learn all that you can about the trading vehicle of your choice. Only after you have a good understanding of how to trade, should you risk your first dollar. Even with a good education, trading will be hard.

Another problem is monetary loss. What will you do during the lean times when your trading does not make money? You will have periods of loss. I guarantee it. In fact, few traders are profitable immediately. I have never known a single person who began trading and immediately started making money. So, be prepared for the fact that you will not be reaping big rewards from your trading endeavors right away. In fact, it is highly likely that your initial efforts will cause you some degree of financial pain. Be prepared for it. Retail outlets open and close every day. If a retailer has only planned for months when sales are high and operating costs are low that retailer is in for a rocky road. The business will probably have a short lifespan. Be prepared for the slow times. Even experienced traders go through times when the trading is off. That just happens to everyone.

Remember that day trading is not easy. That is the reason you need to be prepared before you begin. It is well known that a significant number of day traders are out of business within a short period of time. They start trading with visions of sugarplums dancing in their heads. They do not respect risk and they do not have a sound business plan. They see trading as a get-rich-quick scheme and, unfortunately, they soon learn that it is not. From the first day that you trade, respect the market. Be well aware of the dangers lurking both within you (greed, fear, arrogance) and the dangers that are inherently part of the market.

For me, risk management involves a couple of different levels of control. First, I manage my overall account balance. I do not want my account to fall below an established level. Second, I manage my losses on each trade. Remember that how well you succeed in managing risks will determine whether you are a long-term player or nothing more than a flash in the pan.

MANAGE YOUR ACCOUNT BALANCE

Each trader has to determine the amount of money that he or she is willing to risk. I may be comfortable with one level of risk and you may be comfortable with another. Every one of us has to be aware of his personal particular risk tolerance and personality and act accordingly. I teach my
students to determine the amount of money that they can lose without losing sleep. This dollar amount represents their “tilt” number. My tilt number will be one number and yours will be another. It depends on your particular financial situation and emotional disposition. However, the big idea is to determine a specific amount of money that is the most that you will lose in a day or in a trade and honor that number. In other words, how much of your account can you lose without really being bothered? Say, you have a healthy account balance and you can lose $5,000.00 and not suffer. Then, perhaps $5,000.00 is your tilt number. Another individual may have less capital and a $500.00 loss may be very uncomfortable. Therefore, $500.00 may be that trader’s tilt number.

The important thing is that each trader must evaluate his or her personal situation and determine the loss that can be afforded and that can be accepted emotionally. Then, if the tilt number is reached during the course of any trading day, the trader must stop. Apparently, the trading techniques are not working or they were executed incorrectly. At any rate, the trader needs to quit, analyze, and regroup. Far too often a trader makes one or two losing trades and just continues even though the particular method or analysis is not working. Before the trader knows it, far more money than intended is lost and he or she is devastated. Once the mind focuses on losses, analysis is not clear and trading really goes down the drain.

Everyday I run a traders’ chat room with my business partner and DTI’s Chief Instructor, Geof Smith. As I began trading one morning, I immediately lost 25 percent of my daily tilt number. I gave the microphone to Geof and he soon lost the full 100 percent of the tilt number. It was only 10:00 A.M. but we were out of the game for the day. We followed our rules and did not trade anymore during that 24-hour period.

However, the next day, we still had money in our account and we were ready to come back and make the most of another trading opportunity. In fact, the next week was great and our trading yielded a good profit. The lesson here is that you must preserve capital and keep your account balance healthy or you will be out of the game. Stay in so that you have a chance to win.

One of the biggest mistakes that beginners make is focusing on a recent loss instead of concentrating on the current market. They always want to get their money back. With that mentality, they suffer a loss and then quickly jump back into the soup. They do not analyze and evaluate correctly. They take one bad trade and add a second and a third one to it. The market will always give you another chance but it may be hours or even days or weeks away. Wait patiently for it and take advantage of it when the time is right. Don’t take just any trade. Take good trades when the odds are in your favor.
Another approach to establishing a tilt number is to set a percentage of your account balance that can be lost on a daily basis. Again, this must be a personal decision based on your specific situation. Some traders set a very low percentage, say 2 percent of their overall account balance. Other traders set a much higher percentage. In no case should you ever lose more than 10 percent of your total account balance in one day. If your daily losses consistently exceed 10 percent or more of your trading account, your trading life is definitely measured in days or weeks and not years.

Therefore, set a tilt number, either a specific monetary amount or a percentage of your account balance. Etch the number in stone. When the number is hit, stop for the day. Do not make any exceptions. Trust me when I tell you that this rule is very difficult; many traders simply cannot do it. They establish a tilt number but the tilt number means nothing. Day after day they violate their own rule and in a few days they are out of business.

Keep close tabs on your account balance and stay in the game.

Three Strikes and You Are Out

Another method of controlling losses that is used by some of my students is the three strikes and you're out rule. Regardless of the amount of monetary loss suffered on a trade, if the trader is wrong three times in a row, the trader closes the trading platform. Perhaps the three losses were managed well and it kept the losses very low. Nevertheless, the three errors in judgment signal that something is amiss. Timing is off, analysis is flawed, the market is unpredictable, or something. It is time to stop.

The three strikes and your out rule can also be applied to weekly trading. After three losing days in a row, take a break for the rest of the week. Things are not working for you so go play golf or tend the garden. The market is misbehaving and you do not want to reward it with your money. Many of my students have used this strategy to help them manage risks during periods of time when trading was very difficult and it has been helpful to them.

Always Know the Risk

Before you enter a trade you should know the risk involved. Where will the market need to go to prove you wrong? If it goes there, what will be your monetary loss? Are you able and willing to accept that loss? If you are not, do not take the trade. There will be other trades that involve less risk so wait for them. If you decide to take the trade, determine the nearest points of support and resistance. Use these points to establish protective stop placement and profit targets. Never enter a trade without having a clear
understanding of your point of entry, your profit targets, and your point of exit if you are wrong.

There is one absolutely critical rule in trading: Never trade without a protective stop! It is easy to get into a trade with the intention of exiting the position if it does not work. You tell yourself that you will go to the market if the stock price drops to 99.25 or the S&P hits 1099. However, mental stops are too difficult to execute. You will find yourself giving the market more and more of your money. The market mesmerizes and hypnotizes you to the point of paralysis. Before you know it, you have lost far more money than you ever intended. In addition, there are times when the market moves against you so quickly that you suffer a major loss in the blink of an eye. If you do not have a hard stop already in place, there is no time to get it into the market before your account has taken a licking. Therefore, when you enter the market, simultaneously place a protective stop to be certain that you preserve your capital.

**MANAGE EVERY TRADE**

If a trade is working and you are making money, there is no problem. Just decide when to take your profits and enjoy them. If you buy IBM at 102.00 and the market goes to 110.00, no special skill is needed to take the money to the bank. However, if you buy at 110.00 and the price falls to 108.00, what do you do? How long do you hold your losing position? When the bottom line on the trade is negative, that is when real skill is needed.

Traders are risk takers. In fact, it is impossible to trade without taking risk. However, the risks assumed must be reasonable and must be in line with the potential rewards of the trade. Too often traders refuse to exit their losing positions simply because their egos do not want to accept defeat. These traders sit before their computers as if paralyzed and let the market take more and more of their money. Their trading involves a lot of wishing, hoping, and praying. They convince themselves that their loss is temporary and they refuse to acknowledge the warning signals that tell them that they are wrong. Eventually, after they have lost far too much money, they finally admit their mistakes and they exit their positions. The problem is that now their account is a lot thinner than it should or could have been.

Once I enter a trade, I keep my eyes on the indicators. If there is a recognizable shift in the market, I respond. That does not mean that I exit a trade every time I am slightly down. It does mean, however, that when the numbers and the indicators tell me that I have made a mistake, I acknowledge the mistake and exit the market. If the market responds in an unpre-
dictable or inexplicable manner, I may exit my position even if I have not lost money. Over the years, I have learned what to expect from the market and I do not like surprises.

**If the Market Is Unpredictable, Get Out**

There are times when it is impossible to determine what the market will do next. It is just very unpredictable and trading is no better than flipping a coin. When you see these days or times, just quit. Stop and turn the computer off. Go play golf, work in the garden, or read a good book.

In 2005, Standard and Poors cut General Motors’ debt rating. When the news broke, the markets went crazy. I watched as the S&P Futures Index melted from 1179.00 to 1169.00. As the train left the station, I watched from the sidelines. Risk was uncontrollable because the market was going up and down like a yo-yo. The market had been totally unprepared for this event and it reacted accordingly. Luckily for me, my experience had taught me to stay out of the market and watch while other less knowledgeable players were chewed up.

If you cannot tell where the market is going stay out of it!

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**USE PROTECTIVE STOPS**

As you are aware, I always use protective stops. In fact, at DTI we have a cardinal rule: *never trade without a protective stop!* If my protective stop is hit, I believe that the market is telling me that I am wrong. I was long on September 11th but I had a protective stop in place. When the first tower was hit, the market responded negatively and my protective stop gently took me out of the market. Luckily I only suffered a small loss. Thank goodness I had a protective stop. Without it, my loss may have been great.

Also, once a protective stop is placed, adjust it as the market moves in your favor. For example, if you entered the market at 1102.75 with an initial protective stop at 1099.00 and the market moves to 1105.00, adjust your protective stop accordingly. Do not leave your stop at its original position and assume such a huge risk. Trail the market. In that way you reduce your risk and lock in profits.

Determining the point of placement for a protective stop is often tricky. There are several methods that can be used to determine the right spot. There are arbitrary stops, volatility stops, key number stops, and combination stops. The arbitrary stop is the least desirable and the combination stop is probably the most reliable. However, regardless of the stop that you select, choose one and use it.
Arbitrary Stops

An arbitrary stop means just what it says. Look at the market and pick a spot for a stop. Perhaps you decide that you will not give the market more than four points. Put a stop at the four point loss position. If you move the stop, move it closer to the market but never move it farther away.

The arbitrary stop is the most basic of stops and it is often used by beginning traders. Although it is not my stop of choice, I definitely recommend using an arbitrary stop rather than no stop at all. It offers protection and prevents major loss.

Volatility Stops

The markets are constantly in a state of flux. They move in one direction and then another. Generally, the market moves up and down between support and resistance. If the bulls are strong enough, resistance is broken. If the bears are powerful, support fails. Therefore, knowing the extent of the swings that can be expected can help you to place your stops. Look at some 30-minute bar charts. How low has the market gone within the last 30-minutes or the last hour? How high has it gone? Place your protection just above or below the volatility points. If your stop is hit, the market has broken out of its recently established pattern and a rough ride may be ahead. It is best that you are out, even if you must suffer a small loss.

Key Number Stops

Sometimes I use a key number stop. My RoadMap™ software helps me to determine the right spot for placement. I identify the numbers of support and resistance that are relevant to the particular market that I am trading. Then, I place my stop slightly above or below these levels. For example, if I am long a big S&P Futures contract from 1169.50, I know that the support level is 1167.60. Therefore, I place my stop just below that number. The market respects key numbers and if you know and use them, they are powerful trading tools.

The Combination Stop

This method uses all three of the previously discussed stops and selects the one that offers the maximum protection for the least risk. For example, if you are long the S&P Futures from 1169.50 and the arbitrary stop is four points from entry, the arbitrary stop is 1165.50. The volatility stop is 1167.25 because the market has gone that low in recent trading. The key number stop is 1168.90. The 1168.90 stop offers the least risk and would be selected in this multiple choice approach.
Let the Three Ts of Trading Limit Your Risk

Another way that I manage my risks with each trade is with my three Ts of trading approach that I explained in the last chapter. I trade multiple contracts with the goal of exiting a portion (generally approximately one-third) of my positions with a slight profit; a second portion (generally approximately another one-third) of my positions with a slightly greater profit; and the final portion with a large profit. By taking some quick profits, I have managed to take some money out of the market to cover the downside of my trade. I have greatly limited my risk by getting the market to finance my trade. By using this approach I am able to reduce the risk of the trade quickly by taking some fast profits.

Remember that this multiple contract approach only works if you are skilled at selecting correct points and times of entry. If you are a novice and are consistently losing money, I do not encourage you to increase your number of contracts. If you do so, you will just lose more money faster. But, if you have enough skill and experience, the multiple contract approach can be very helpful to you.

Identify the Times that your Trading Is Weakest

Another thing that you may do to preserve your capital is to identify the times that are generally the best trading times for you and also identify the times that are the worst. If you trade during the times that generally give you a lot of trouble, be sure that you lighten your positions and exercise extreme caution.

Historically, Mondays are not good days for me. After taking many poundings from the market on Mondays, I now enter each Monday with my antennae up. I limit my number of positions and capital preservation is always at the front of my mind. By doing this, I have turned Mondays into low risk days so that my capital will not be eaten up before the week really begins. That way, I can trade later in the week when the opportunities are better.

FOLLOW THE TWO-MINUTE RULE

When a trade works, it generally works quickly for me. If my trade is good, I usually know it right away because my first profit target is hit in seconds and my second profit target is not far behind. Generally within two minutes I know whether or not I have a winner. I have a two-minute timer on my software that I set when I enter a trade. If the timer sounds and I have not been able to get paid on my first profit target, I reevaluate my position. I
take a hard look at the indicators. Am I still happy with the trade? If I still have faith in it and the indicators and the numbers seem to support my belief, I hang on and give it more time. However, if there are danger signs surfacing, I take the trade to the market. Maybe the trade will shift and pay me, but the risks may be too great. It is better to exit if things are not looking right. You can always reenter after the picture is clearer. By exiting a losing position quickly, you can save yourself a lot of grief and a lot of money.

Set Realistic Profit and Loss Targets

Don’t expect more from the market than it is likely to deliver. That is one of the biggest mistakes of beginners. They all seem to expect to get rich quick. The markets have an average daily range. Know the range of the market that you are trading. If the average daily range is 12 points and the market has already moved ten points, don’t expect another ten points of movement before the close. There will be exceptional days, but the market will generally not pay more than its average daily range. With the S&P Futures, the average daily range runs anywhere from 11 to 16 points a day. Accept reasonable profits and take pride in them. Over time, small profits add up to a nice annual income.

Set a daily goal for success. If you are a beginner and you make several points of profit, you have done well. Take your profits and pat yourself on the back. Don’t expect to make thousands of dollars every day. If you establish goals that are too high, you are only setting yourself up for failure and disappointment. As your skills grow, your profits will grow. Be patient and focus on learning and gradually making more money as your skills improve.

Also, set reasonable loss limits. I never lose more than one-third of the average daily range on any trade. If the average daily range is 18, I do not want to lose more than six points, or one-third of that range on any single trade. In fact, I very rarely lose that much on a trade. I evaluate my risks and watch the market too closely. I do not let losers deplete my account.

There are a number of ways that you can determine a market’s average daily range. I use my RoadMap software to check the average daily range for the markets that I am trading. There are also web sites that will help you determine this information. One of my favorite sites is barcharts.com. This site is packed with useful information, including the average daily ranges for a variety of trading vehicles.

Know the Risks of Trading Futures

As you know by now, I enjoy trading futures and I have made a lot of money in the futures markets. One of the aspects of futures has always held a special appeal for me and that is leverage. Futures are highly leveraged invest-
ments. For as little as a thousand dollars, in a margin account, it is possible to trade the S&P Futures and control many thousands of dollars worth of assets. The e-mini S&P is worth $50.00 per point. Therefore, if you make ten points in a day, on one contract, you have made $500.00 on a $1,000.00 investment. Needless to say, that is huge. However, the downside is that if you lose 10 points on that contract, you have lost $500.00 or 50 percent of your investment. Leverage has one other downside. If you buy a stock at $100.00 per share and the price falls to zero; you have lost $100.00 on each share. But, futures are different. You can only trade with a margin account and you can actually lose more than your account balance. Your loss potential is not limited as it is with equities. If your futures account balance falls below the margin requirements, you will be forced to deposit additional funds to cover your losses. Therefore, many analysts consider futures very risky and day trading futures even riskier.

I understand the risks but I do not agree that it is necessarily more dangerous than a traditional buy and hold investment approach. I disagree for the following reason. I believe that the buy and hold strategy of many traditional investors is far riskier than my approach. It is a strategy based on blind faith because if the market goes down like it did in the early 2000s, these investors just sit on their hands and suffer. They watch their account go down day after day and do nothing. I, on the other hand, am a day trader and I adjust my trading on a daily basis as the market dictates. I believe that holding certain investments for the long term may be detrimental to my financial health.

As I noted earlier, the exchanges seem to support my position. If you trade a futures contract during the day and exit your position on or before the market closes, you have a much lower margin requirement than if you carry your position overnight. Generally, carrying positions overnight requires a significantly larger account balance. For example, it is possible to trade one S&P Futures contract for as little as $1,000.00, but if the contract is carried overnight, the margin requirement is $4,500.00. The exchanges know the risk of staying in the market and account for that risk in their cost structure.

Therefore, I trade futures, but I always use protective stops and aggressively work to manage my risks. I also never hold futures positions overnight. If I trade the night market, I enter the market once the night (Globex) session has started. I do not carry a position from the day session into the night session.

**Manage Risk with Equities**

I trade equities just like I trade futures. That is, I use the three Ts of trading approach. When I am day trading stocks, I generally purchase 3,000 shares. Then, I take a few ticks of profit with a portion of my positions. I trade the
second portion and take more profit. Finally, I hold the final segment and follow the market trend. Unlike futures, I may decide to hold a stock position overnight if I have protective stops in place and if I have strong indication that I am on the right side of the market. Also, remember that if I have already exited approximately two thirds of my position, I have money in the bank to cover my downside.

When trading equities, just like when trading futures, determine the maximum loss that you will incur on a trade. Never lose more than 10 percent of your purchase price. For example, if you buy IBM at $100.00, set a maximum loss at $90.00 or a loss of $10.00 a share. Do not just buy and hold. Day trading is often criticized for its risks. Yet, buying and holding a stock without reacting to market conditions is a far riskier position to take. It is hard to accept a 10 percent loss, but that is far better than a 50 percent or greater loss. Do not bury your head in the sand, watch the market and react accordingly. When high-tech stocks fell in the early 2000s, millions of Americans just sat helplessly and watched their savings vanish. A lot of retirees lost most or all of their savings by holding on to a losing position for too long. Do not let that happen to you. Use stops and limit your losses. If there is a change in the market and the time is right for buying, you can always take the money that you kept and reenter the market.

Preserve Your Hard-Earned Capital

If you are wise, you will not only make money trading but you will take appropriate steps to preserve some of the money that you make. The ninth student who attended my school was a doctor from New York. At the end of the class, he deposited $20,000.00 into a trading account. He was apparently a very good student because at the end of 90 days, the account had grown to a half-million dollars. (Please understand that his great success was exceptional. Please do not begin trading with the expectation that you will reap such great rewards so quickly.) In the back of my mind I wanted to take credit for his success. But, I knew he alone deserved the credit. However, I did earn credit for advising him to preserve a portion of his capital. I insisted that he buy a certificate of deposit worth $100,000.00 and stash it away. My rationale was simple. With the money in the bank, he would never be a loser in the futures market. I did not want to see him succeed in taking a small amount of money, turning it into a small fortune, only to see him lose it. I wanted him to preserve some of his earnings for a rainy day. I hesitated to tell this story because I do not want all of you to think that in 90 days you can turn $20,000.00 into $500,000.00. Hank was an exceptionally good trader who possessed the skills he needed to win. He was able to use his skills and knowledge effectively and strategically so that he could tactically approach the market. Hats off to Dr. Hank!
I was proud that I advised Dr. Hank to put some of his hard earned assets aside. I advise all of my students to do that. Don’t just keep all of your profits in your account; take a percentage of them out on a regular basis. If you don’t, you get separated from your money and you get reckless. If you are profitable during the week, I suggest that on Friday you take a portion of those profits out of the account and place them in a checking account or some form of savings or investment. Trading income is hard earned so enjoy it. Always get paid.

GREEN CIRCLE COUNTRY

At DTI, we developed a very simple accountability system that we refer to as Green Circle Country. Each of us keeps a trading calendar. Every day when our trading comes to an end, we mark our profits and our losses on the calendar. If we are profitable by any amount, even one dollar, we place a large green circle on the day. If we have lost money, we draw in a large red one. That may seem very elementary and evoke memories of stars from the second grade, but it helps my students. My students work to stay profitable and green because they do not want to have to look at a calendar coated in red circles. I always tell my students that if they are green, even if by just one dollar, they are doing well and they are ahead of the game.

If you like the idea of Green Circle Country, get a calendar and get started. It is a simple way to hold yourself accountable for your trading results.

REVIEW

The primary goal of every trader must be to control and limit risk. If the risk of a trade is properly handled, the rewards will follow. There are a number of ways to deal with risks. I use a method of trading in which I limit risk by taking some quick small profits and financing my trade. I liquidate the first part of my position with just a few ticks of profit. I trade the second portion of my position and liquidate it with a two- to three-point profit. Finally, I use the final portion of my position to follow the daily trend and maximize my profits.

In addition to using the three Ts of trading, I always know the risk of every trade. If I am not willing to accept the risk of a trade, I do not take the trade. Also, once I enter any trade, I carefully monitor it. I always use a protective stop, but I watch the market indicators carefully and if the indica-
tors shift, I act accordingly. I may liquidate all or part of my position and I may raise my protective stop, if the market signals to me that I need to do so. I do not just sit like a bump on a log and let the market zap me and take my money.

Some days are just difficult to trade. Maybe the market is acting irrationally and it is unpredictable and unreadable. Or maybe you had an argument with your spouse or learned that your mother is ill. Maybe you just don’t feel good and didn’t get enough sleep. Regardless, your trading is off and you just don’t seem to be able to get in the swing of things. Quit. Stop. Turn off the trading platform and do something else. Every day will not be a winning day so deal with it effectively and limit losses on those bad days.

Remember that trading is a business and your capital is your inventory. Preserve your capital and stay in the game so that you can make money.

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**LESSONS LEARNED**

- Consider the risk of a trade first. If you control the risk, the reward will follow.
- Know the risk of every trade. If you do not like the risk, do not take the trade.
- Determine your personal tilt number and do not exceed it.
- Manage every trade to limit risk and control losses.
- Make preservation of capital your primary goal.