



The Ultimate Traders Guide to Money Management

Using simple mathematics and basic statistics to minimize losses, maximize profits and avoid financial ruin

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Are You Sick of Losing Money Trading & Looking to Make Size?

Can't Figure Out Why You Are 65% Right On your Trades But Still Losing Money?

- Many traders are more than 50% right on their trades, but still losing money. How can this be?
- Most traders at some point will end up doubling down on losing trades.
- Most traders are trading on instinct and gut feeling rather than any sort of mathematical premise.
- Most trader are sizing up incorrectly.





Hi, I'm Gary, and I've been trading the markets professionally for over 18 years.

If You Aren't Interested in Making Size Then **Stop** Reading Now!

I'm going to tell you a little bit about myself. I grew up in NYC to an immigrant family. I wasn't born into wealth, but my parents were always pushing me to excel and do well in school. I was always good at math, but I can't say that I was a star student. I attended a public state college, but by the time I was about to graduate I was already raking in money and managing my own desk as a head trader at a large Wall Street prop trading firm, that I didn't see the point in continuing, and dropped out of school.

I started my career in the mail room and worked up to become one of the top 5 traders in a Wall Street trading firm with over 800 traders. I've managed my own broker dealer and today I'm a partner in a hedge fund and consult for many more. I'm fortunate to have grown up in New York City and been around at the right place at the right time. I started SizeTrade to give back to the community and help out the little guy.

Why Am I Telling You All of This?

Because I've been there and done that. I want to let you know that I've seen and experienced it all. **I've had huge days where I made over \$500,000 and I've had days where I lost \$100,000** and wanted to break monitors and throw keyboards.

I've doubled down on losing trades and I've tried to fight the market with fundamentals only to have to cover my shorts. But overall I've been extremely successful in the markets because of five very important things:

- 1** I was fortunate enough to have been exposed to the best traders on Wall Street who taught and mentored me.
- 2** I was always willing to work harder and longer hours than everyone else. I showed up to work hours earlier and left hours after everyone else.
- 3** I surrounded myself with good people who were willing and interested to share and collaborate. I never talked down to a younger trader who had a good or better idea than me.
- 4** I am quick at math and I'm good at finding trends. I modify my strategies to adjust to the markets.
- 5** Maybe most importantly, I adhere to extremely strict money and risk management. Rather than trading from the gut, I trade mathematically.

What I'm here to tell you is that you too can be successful with your trading. I'm sure you have read all the technicals out there and you can probably spot more patterns than me at this point. But your major problem with your trading boils down to #5 - you simply haven't developed a system of trading that is mathematically based.

And that's what I'm going to teach you here **Now** and for **Free** and why you downloaded this PDF.

You've probably read it all over the internet. "Risk management," "staying cool," "remaining calm". It's all true, but nobody tells traders actually how to implement these concepts concretely.

In reality, understanding risk is what separates a profitable trader from a trader who blows his entire account. Banks and large institutions have a firm grasp of this concept, and it is one of the major reasons they are successful at trading, and most day traders lose money.

For those traders who actually want to learn how to make money in the market – keep reading. This is NOT going to be another boring article on risk management.

We highly recommend traders NOT to SKIP this discussion. **It doesn't matter if you are a beginner or intermediate trader, or if you are a veteran trader of 30 years.** This discussion is the core strategy of understanding risk and how to trade profitably and is valuable to EVERYONE.

In the following discussion, you will get FREE access to Golden Trading Knowledge that other “trading academies either 1) don't even know about, or 2) charge you thousands of dollars for. I have over 15 years of trading experience and I'm passing on this knowledge to our SizeTrade community so that traders will finally understand why they are still losing money even though some traders may even be correct in their prediction of the market over 60% of the time.

This discussion will provide traders with **real, concrete, simple** yet **invaluable** fundamental **mathematical** concepts which can be applied starting NOW with your next trade.

I've Talked to Thousands of Traders...

including many of our SizeTraders who are just starting out with us - and the vast majority of them have no concept of risk management. I'm not trying to be harsh or put anyone down, **but I just say it how it is.**

I'm hear to tell you that if you don't get your money and risk management under control, you will **NEVER**, that's right **NEVER** make money on a consistent basis in any market.

Sounds Harsh? It's the truth, and your money and time are valuable. Don't flush them down the drain.

Why Should You Listen to Me?

Because I understand what it takes to make money as a mathematical certainty.

The following discussion will show traders how to trade profitably by basing their trading strategies on very simple, but extremely important mathematical principles.

Don't worry – if you can add, subtract, multiply and divide, then you can understand the trading methodology. Just read it carefully. Follow and understand the examples. Then re-read it again as often as possible until you fully understand every word.

If you have questions about the content and would like to discuss it, then don't hesitate to shoot us an email at support@sizetrade.com, or feel free to catch us on our live chat.



DISCIPLINE

The trader must remain disciplined to the strategy and trade the strategy the same way every time. He must trade every single trade that the strategy affords i.e. he cannot decide...



MONEY MANAGEMENT

The trader always risks the same amount of money per strategy regardless of the trade. I.e. the trader cannot decide one trade to risk \$1000, and another trade only \$200 ...



MATHEMATICAL RISK

The trader must establish the true and optimal mathematical risk and profitability for his strategy. He must calculate from historical data the best risk reward ratio which....

What Can You Expect After Having Mastered this Material?

You won't trade from the gut anymore.

We outline clear simple mathematical formulas that you can start using immediately to help you improve your odds of being profitable.

Even if your trades are only 40% right you can still be making profits.

That's right! You read it correctly. Some of our best and most profitable strategies I am only 45% right on my prediction, but when I'm right I make a killing!

You will remove a lot of the uncertainty and guess work in trading.

Once you start trading mathematically, you have removed the guess work and your trades are mechanical. Although the stresses of trading still exist, your decision process is no longer based on your gut feelings but only on the math.

You will learn to trust yourself and your trading.

Since your trading will be based in math, you will learn to trust the math, and you will ultimately understand that the math works out pretty much the same in the long run. You can get lucky and have winning streaks, and you can get unlucky and have losing streaks, but in the end, the math all averages out in the long run.

Most importantly, you'll increase your odds of making money trading . . . drastically! 'Enough said!

Now, let's get down to developing
a profitable strategy

SizeTrade's Fundamentals to Trading Profitably

DISCIPLINE

Many trading blogs and books have been written on the concept of risk, but none really give defined rules about how to actually mitigate your risk. Discussions of remaining calm, cool and collected are not particularly helpful for traders as ultimately decisions are made based on emotion rather than a formula for most traders.

Many traders spend years learning technical analysis but they are still losing money even though they are 65% right on a given strategy. How is this possible?

Let us take for example trader John. He is looking to make 5 points on a strategy that he has developed for trading ES futures.

For ES futures, every point movement corresponds to \$50. He makes 5 trades in a row and he's right on all 5 of them. That's \$1250 profit (5 points x 5 trades x \$50). Not bad – he might be on to something! The problem is that in the next 3 trades he is wrong and the ES moved 30 points against him for a loss of \$1500 (30 points x \$50). Over these 8 trades, John lost \$250! This comes as a surprise to John because he doesn't understand how it is possible that John was 62.5% right on his strategy (5/8 trades were correct) and yet he lost money.

The problem with John and most traders is that they are willing to risk more money than they are willing to make, or they simply don't establish how much money they are willing to risk per trade and they have not actually calculated how profitable their trades will be. Thus over a long term strategy (and even short term!) the trader ends up losing money.

As a trader, you must remove the maximum number of variables from the trading equation so that you will have maximum profitability when trading the market. The only variable allowed for in SizeTrade methodology will be the percent chance of successful trades for a given strategy - i.e. how often do you make a winning trade? Now believe it or not, traders can still be very profitable even if they are only 40% correct in their prediction provided they take into account their risk and reward per strategy, and maintain the same risk and reward per trade.

Let me elaborate.

When trading, a trader should ALWAYS use the following formula to determine their net unit profits:

$$\text{PROFITABILITY} = (R \times P \times N) - (K \times (1-P) \times N) = F \times U$$

R= Reward; # points reward per trade

P = Historical % chance correct prediction for the given strategy

N = Number of trades made

K= Risk; # of points risked per trade

1-P = Historical % chance wrong prediction on given strategy

F = FACTOR MULTIPLE: the ultimate deciding variable that tells you how profitable your trading strategy will be

U = Total Net Units Risked Per Trade (arbitrarily decided by trader; in the case of stocks it would be equivalent to the number of shares purchased corresponding to a dollar amount; in the case of trading futures it would be the equivalent to the number of contracts purchased corresponding to a dollar amount.

We're going to use an example from one of our recent SizeTrade members Daniel, who allowed us to use one of his trades as an example.

Daniel is smart and is looking to learn how to trade profitably, so using SizeTrade methodology he established his risk reward profile for EVERY SINGLE TRADE on a given strategy for ES futures.

Daniel has one particular strategy that he is trading which has on average 10 opportunities to trade per week (i.e. the trade setup is quite frequent), but he is only correct about his prediction 40% of the time. So out of 10 trades a week, he is only right 4 out of 6 of the trades. But Daniel also understands the concept of risk and reward and he has calculated that even at a 40% success ratio he can still make money.

Daniel has calculated that on this strategy he will have maximum profitability if his risk reward ratio is 1:3. It turns out that in terms of actual point movement on this strategy he is risking 2 points to make 6 points but the ratio remains 1:3.

Based on this information, Daniel can now calculate how many units he should be earning weekly.

Using: $(R \times P \times N) - (K \times (1-P) \times N) = U$, let's plug in values.

$(3 \text{ reward} \times 0.40 \times 10 \text{ trades}) - (1 \text{ Risk} \times 0.60 \times 10 \text{ trades}) = 6 \text{ Units profit per week.}$

6 units profit corresponds with \$300 profit per week, per contract (6 units x \$50).

PAY ATTENTION HERE!

If Daniel would like to increase his profits per week, he DOES NOT have to take extra risk on individual trades by trying to grab more points. INSTEAD all he has to do is increase the number of contracts he wants to trade. By doing so he is increasing his risk, but he has increased it in a calculated manner based on statistical data rather than taking unpredictable risk by changing HOW he is trading every trade!

So in this strategy, Daniel risked \$100 (2 points) to make \$300, and this is calculated per contract!

So if Daniel is actually looking to risk \$400 per trade, then he would trade 4 contracts (\$100 risk per contract x 4 contracts = \$400) and his reward would be \$1,200! (\$300 reward per contract x 4 contracts = \$1,200)

MONEY MANAGEMENT

1. Risking the same dollar amount consistently
2. Understanding your historical % chances of being correct on a trade
3. Understanding margin and how it fits in with risk

1. Risking the same dollar amount consistently

A trader always has to establish how much he is going to risk every trade, and he cannot deviate from it, no matter how good the setup or “feeling” he has about the trade. If he is risking \$400 a trade, then he has to risk that same \$400 regardless of how he feels about the trade, or regardless of what strategy he is trading. So let’s say a trader has two E-mini strategies that he is trading, a 4:4 and a 2:3 risk reward strategy.

In the first strategy he is risking 4 point, to make 4 points. If he is risking 4 points then that means he is risking \$200 (4 points x \$50) per trade. Since he wants to risk \$400 per trade (2 units for this strategy), then he’ll buy 2 contracts per trade for a total risk of \$400 in order to earn \$400.

In the next strategy he is risking only 2 point to make 3 points. But in one of the trade setups, he has a really good feeling about the trade this time and he decides to load up on 10 contracts. In this case he is risking \$1000! (2 points x \$50 x 10 contracts)

To trade correctly and consistently and profitably, the trader must always risk the same \$400, and so for the 2:3 risk reward strategy he will only trade 4 contracts. (2 points x \$50 x 4 contracts)

This is not to say, that the trader cannot decide to increase his risk exposure, i.e. decide to risk \$1,000 per trade. But he now must adjust all his trades so that he is always risking this amount. Otherwise if the trader decides to risk different amounts of money every trade than he is setting himself up to lose his money.

More on risk: Understanding the “Historical % chance correct prediction for the given strategy” variable, or in other words, the chances of being right on a trade for a given strategy. This is determined by historically looking at all trades that were made on a given strategy and just calculating how many predictions were right, and how many were wrong.

For any given trade (without any prior knowledge regarding the asset) the percent chance that the asset will go up or down is 50%, and thus the percent chance of predicting the market correctly is 50%.

But there is a major caveat , and herein lies the fundamental question – how much up or how much down?

The answer is that the probability of correctly predicting the market (without having any prior knowledge or experience about the trade) **is 50% ONLY if we are assuming a 1:1 risk : reward ratio**. Thus there is equal probability that the product traded will go up 5 points or down 5 points (the magnitude of points is irrelevant as long as the ratio of the risk:reward remains the same).

The key point to understand is the following: The probability of being correct about any given trade decreases as the risk:reward ratio increase. The probability of being correct about any given trade increases as the risk:reward ratio decreases. Thus here we can understand one of the reasons why a trader would experience diminished probability of successful trades made.

For a trader it is important to understand the following: We must look at risk:reward ratios as a set and if we intended to flip a coin 10 times (or make 10 points while only risking 1) the probability that this occurs is less than if you were to make 1 point while only risking 1.

Thus a trader must look at how he trades in a similar light. A trader must be aware of his risk:reward ratio!

There is a lot of ego that goes into trading, and traders do not like to be told that they are bad traders, or in so many words that they suck.

There are usually several different ways in which traders err with respect to risk: reward ratios

A. A trader gets into a trade without having either exit point predetermined. For example, a trader buys Facebook on the hopes that fundamentally and technically the stock is going to rip, but the trader has not established his stop loss nor has he established his potential profits. He has absolutely no exit strategy and while he may get lucky and make money on a given trade, over the long run he will lose his entire account.

B. There are those traders who establish their reward per trade i.e. the measured move, but have not established what their risk is for the trade. These traders simply don't last very long at all because they have no idea when they need to get out of a trade, and as the market is tumbling they either pull out randomly and take their losses, or continue to buy as the market goes down in hopes that it will rebound. By the time they have lost 80% of their portfolio, they decide to finally get out and take their losses, only to miss the rebound.

C. If you are a more professional trader, you may have established a stop point – i.e. how many points you are willing to risk, but you haven't determined your exit strategy on the profitability side. The trader has grandiose ideas about the trade and doesn't even think about the math. He has over estimated how great the trade is. He may even be a good trader, and on a 1:1 risk:reward trade he is correct 70% of the time but he doesn't know when to get out of FB because he believes that his trade setup is so awesome. What ends up happening is either two scenarios:

i. The trader has established his risk, but has not established a reasonable reward (he thinks it's going up 20 points). The trader is over confident about the trade. FB goes up 3 points, and the trader is squirming in his seat because he was correct about his prediction. But then FB temporarily reverses and he gets stopped out because he didn't have an established exit point on the reward side. Instead of taking the 3 points profit initially, he is now down 1 point.

Or

ii. FB goes up 70 cents. His initial risk was 1 dollar, but FB starts stalling and the trader begins to get nervous and is biting his nails as he is sitting there watching every tick. Then when FB has a small pull back, say 20 cents, the trader exits the trade because he wants to be profitable. Here in this trade he has risked 1 dollar to make 50 cents which means he has risked twice as much and in the long term he is going to lose money, because even if he is right 2 out of 3 times, i.e. 66%, he is still going to lose money.

D. Traders are inconsistent. For a given strategy the risk:reward ratio must never change unless the trader plans on changing the risk:reward strategy for all future trades as well.

E. The trader must understand that as he attempts to increase the reward ratio the likelihood of that outcome occurring diminishes.

F. The trader mixes a combination of the above points A through E randomly, and has no plan and blows his account.

Ultimately, the trader must determine the maximum profitability on a given strategy for a given historical % correct trades, and more on this will be discussed in the following section.

It may be worthwhile to mention here that there is a MAJOR problem in trading profitably on several trades as a result of good timing rather than mathematical principles i.e. emotion over math. Most people trade like this and in the long term lose money.

This is because they have defrauded themselves into believing that they see something that isn't really there, and there exists no mathematical principles to back up their trades. If traders have good timing, and a trade works out well for them, then they think they have found some sort of Holy Grail and latch on to it and trade similarly even though the trade was simple dumb luck.

If the trader has not established mathematically how he will trade, EVERY SINGLE TRADE, we see clearly how his emotions take over the trade rather than let the math do its work.

3. Understanding Margin with respect to futures (margin in equity trading is a bit different).

Let us first define several terms:

"InitialMargin:"

With ES futures, the "initial margin" is established by the Chicago Mercantile Exchange (CME). It is the initial deposit a trader must make as a good faith measure in order to purchase a futures contract. This "initial margin" changes per product traded (i.e. ES "initial margin" is different than Oil or Gold or other Indices like the Russell). For example crude oil mini contract, QM has an "initial margin" of \$1,600, and the big oil contract, CL has an initial margin of \$3,200. The "initial margin" has nothing to do with the actual price of the instrument traded. I.e. it does not matter if the ES S&P500 is trading at \$2,000 or \$2,100, the initial margin is still \$5,500.

The Chicago Mercantile Exchange provides the trader with tremendous leverage – approximately 1:18 (so \$5500 can control a contract valued at approximately \$100,000) and thus is allowing for the trader to control a large sum of money with an initial margin deposit.

"Regular Margin:"

Brokers can add on additional leverage called "regular margin" as they see fit. It is up to the broker to manage his own risk, as any additional margin it affords traders is the brokers's responsibility. Once the trader settles the futures contract he is returned the initial or regular margin and any gains or losses are added or deducted based on the trade that was executed.

IMPORTANT NOTE: If you are planning to hold trades overnight, you must have an account balance able to cover the "initial margin." "Regular margin" only applies to intraday. i.e. you must close out your positions before the close of trading if you do not have an account big enough to cover the "initial margin."

"Maintenance Margin:"

A trader must also establish "maintenance margin," which is the absolute lowest account balance which the trader must maintain when trading futures before a margin call is made, and the trader must deposit more money into the account. This is to cover for any potential losses provided the trader is wrong about his prediction.

The risk of losses in trading futures contracts can be large as a result of the high degree of leverage in futures trading and the small initial margin requirement. As a result, traders who trade with higher leverage are risking a higher percentage of their account, than traders who trade with smaller leverage. While leverage can work for you, it can certainly work against you.

Let us take for example two traders, John and Sam. John makes a deposit of \$10,000 into his account. Sam also makes a deposit of \$10,000 into his account.

XYZ broker allows for an additional 1:5 regular margin on-top of the initial 1:18 margin provided by the Chicago Mercantile Exchange.

John purchases one ES contract using no extra margin and uses the "initial margin" requirement of \$5,500. On this trade he is willing to risk 4 points to make 4 points ($4 \text{ points} \times \$50 = \$200$). \$200 is 2% of his entire account ($\$200 / \$10,000 = 0.02$).

Sam purchases one ES contract using the extra 1:5 "regular margin" that his broker provided in addition to the "regular 1:18 margin" that the CME provides. He purchases one ES futures contract with \$1,000 "initial margin."

In this case, both traders have risked 2% (\$200, or 4 points in an ES contract) of their account size.

In the above examples there is no difference in terms of risk for either trader. The only difference is that Sam is taking advantage of margin in order to keep available capital in his account for another potential simultaneous trade.

The problem with margin is when traders begin using leverage in order to take upon themselves greater risk with respect to their portfolio size in the hopes that they can earn more money; however, what they often forget is that they are risking more as well.

Let us take again the example of John and Sam. Both deposit \$10,000 into their own respective account

John decides to take upon himself some extra risk and he would like to trade 2 contracts on his trade in order to increase his profits from \$200 to \$400. (4 points X \$50 X 2 contracts); however he cannot execute the trade without using additional "regular margin" because he is limited by \$10,000 in his account, and the "initial margin" required by CME is \$5500 per contract.

He decides to use some of the "regular margin" offered by his broker and purchases 2 contracts for a total of \$6000 (each contract was \$3000). This leaves him \$4000 in his account as "maintenance margin." In this case John is still risking 4 points in his strategy but he is risking twice as much because he has purchased 2 contracts. Thus his total risk is \$400 (\$50 X 4 points X 2 contracts). This is 4% of his entire account.

Sam decides to be more aggressive and on this trade he would like to trade 5 contracts. He will still use the same strategy as before, risking 4 points in order to profit 4 points. Thus he is looking to make \$1,000 (4 points X \$50 X 5 contracts). However, in order to conduct this trade he needs to use the full "regular margin" that his broker offers and he purchases 5 contracts on "regular margin" for \$5000 (\$1000 apiece) and leaves a "maintenance margin" of \$5000 in his account (the minimum "maintenance margin" required by his broker per ES contract is \$1000).

At the same time, Sam must realize that because his broker allows for him to leverage more with "regular margin," he is now risking 10% of his account.

MATHEMATICAL RISK

III) The trader must establish the true and optimal mathematical risk and profitability for his strategy.

1) How do banks and large institutions do it?

Often traders ask the question, “The odds are stacked against me. How can I be profitable trading if billions of dollars are invested by massive banks and hedge funds with entire teams of MIT, Cal Tech and Harvard mathematics and computer science graduates who are literally sitting there and programming all day long to beat the markets? They are extremely profitable, and so how can I compete? How can I beat the banks?

Ultimately, traders must realize that large intuitions trade on massive volumes with almost unlimited money. Thus they can afford to trade on strategies that oscillate on a 1:1 risk:reward ratio because even a fraction of a percent of profit on one trade is millions of dollars – and thousands of these trades are being conducted every day.

Let’s take for example the classic technical, a “Head and shoulders,” and what the outcome would be for a trader who were to perform a textbook measured move. The problem is, that these one layered strategies will not work anymore because computers are able to scrape data of all markets, futures and stocks and calculate in real time the statistical probability of that pattern panning out and being profitable. A human looking at a few graphs simply cannot compete on this level.

Traders must realize that the large institutions are playing on a playing field of success ratios of: 50.1% and 49.9%.

If a classic head and shoulders pattern says to buy and the large institution has determined that there is a 50.1% success rate, then the large institution will take that side. If the odds though change, and that pattern turns out to be only 49.9% success rate, and the classic head and shoulders pattern says to buy, the large institution will actually take the opposite position and sell. This pattern continues all day long 24 hours a day. Massive super computers are basically setup in order to determine which direction these classic patterns are moving.

And so, big bank super-computers are running their algorithms on a 50:50 strategy and they are able to fight on that level because of the massive capital and trading volume that they have. Thousands of brilliant programmers and mathematicians from top universities are hired by banks and are able to trade at 49.9% or 50.1%. Banks always have more cash on hand than actual strategies, and they are able to trade on volume with no commissions. The battle ground for large intuitions is on these high frequency strategies.

Banks literally have unlimited capital for day trading which is specifically allocated for trading. For example a bank doesn't need to wait for a pattern with 3 points profit that you as an individual trader would wait for because by that time, you have missed the 1 million trades on the 0.1% profits which were performed on billions of dollars worth of volume.

Furthermore, large institutions are also adding liquidity to the market as a market maker and they make money on the commissions. Banks also have internal exchanges which they want traders to trade on, and every time a transaction takes place they make money on fees. Other banks who don't want to get into the exchange business and don't want to compete with major financial institutions, can call the larger players like Goldman Sachs and say, "Hey I don't trade as much as you, and I don't trade 1 trillion a day, but I do trade 50 billion. Do you want me to trade on your exchange? I'm selling you all of my liquidity. How much are you willing to pay?" A bank with a smaller trading desk than Goldman Sachs, like Wells Fargo, looks at the transaction like a secondary business and is selling their traffic. Now Wells Fargo can go and market their commission rates to other hedge funds.

Large Hedgefunds can't play on the same levels as the largest banks, but they are still able to play big and they take sides on 49.7% and 50.3%.

As more and more computers around the world see the patterns and are able to jump on a trade, the chances of success change. And thus really these percentages see-saw back and forth around 50% and large institutions are exploiting that 0.1%.

Now why is this relevant to the individual traders you may be asking?

Large intuitions are trading textbook patterns on 1:1 ratios, but as individual traders we must be cleverer and modify the core strategies in order to trade profitably.

Humans may not be able to process faster than computers, but we are certainly smarter. What a trader must do is find new levels to buy or sell at, risk less and make more. This is indeed the most complicated aspect of trading, and it requires the trader to find patterns, back test them, and then re-modify their strategy.

2) How do smaller institutions and individual traders develop strategies?

As stated before, traders who are interested in getting started trading today, can implement part I and II risk and money management, and purchase developed working SizeTrade strategies and receive daily signals for intraday futures trading. But for those who are interested how these strategies are developed, or are interested in developing their own, read on!

Let us take a look at an example: Let's say there's a classic Head and Shoulders pattern developing on XYZ stock, and the value of the stock is hovering between \$97 and \$100. Based on the pattern and you should go long on XYZ stock at 100 because it means a breakout, and at 97 you should short the stock because it means it going to pull back. XYZ breaks 100, you buy your shares and set your stops at 90 and 110 for a 1:1 risk reward (these numbers are arbitrary). But, let's say that instead of following the regular pattern you decide to buy at 98 instead of at 100. Now you are risking 8 points to make 12 points.

The trader has effectively decreased the risk and increase the reward and the probability of the trader being profitable goes through the roof.

However, the caveat is that XYZ may not go down to 98 and the trader may miss getting into the trade entirely, and since everyone including large banks are watching this particular signal – the likelihood of catching the 1:1 signal are slim.

So the question remains, once a pattern has been identified, how often will the pattern occur and how often does it actually get triggered?

Let us define:

The probability that a setup will occur in the first place

The probability that a pattern leads to a profitable outcome – this is equivalent to the Historical % chance correct prediction for the given strategy

How are strategies actually built?

Why do we randomly chose to buy at 98 in the above example? Some traders do it because it's a better price. As discussed in most cases traders may know the measured move but they don't necessarily know where they will get into the trade.

Here at SizeTrade, we layer our strategies by adding more patterns to strengthen our strategies. We find the signals that give a reason to trade at a given value. By doing this we maximize our profitability of the trade and the probability of a positive outcome.

While we aren't going to give away our trading strategies we'll give traders insight into how to begin to build their own strategies. It is done by building indicators. For example a trader starts by analyzing charts and looking for some patterns, maybe he notices some base technical like a head and shoulders, or a bull/bear flag etc. The trader then adds further indicators to the strategy based on pattern recognition – i.e. trends, dow theory etc. He continues to add further indicators that help him increase the probability that the pattern leads to a profitable outcome.

The more indicators added, the more powerful the signal, but as a general rule, the greater the number of indicators per strategy, the less frequency with which a trade is made because the probability that a setup will occur in the first place is reduced.

The trader has analyzed charts after chart and applied many patterns and indicators and has determine the probability that his trade will play out in his favor based off of past data! – i.e. he must find the historical % chance correct prediction based on the historical charts.

Via regression analysis, for various situations of entering in trades he then must play with his risk:reward values in order to determine the maximal factor multiple, “F”, the ultimate deciding variable that tells you how profitable your trading strategy will be.

Then simply using the equation from part I, the trader is able to determine the variable “F,” factor multiple, which will tell him how profitable he would have been had he traded this strategy in the past.

The trader needs to back check, come up with new percentages and new rewards and continue to refine his strategy. This refining never ends as patterns and strategies change as the market changes.

We always like to say at SizeTrade: you’re only as good as your last trade.

It’s always best to paper trade your strategies first before you enter in live trades; but nothing will tell you really how good your strategy is until you put some money behind it and really run it.

Conclusion:

Ultimately truly profitable trading can be reduced down to several principles including sound discipline, money management, and actually determining the true and optimal mathematical risk and profitability for a strategy.

Sound discipline and money management can be learned and applied starting today. Developing trading strategies that are profitable take time and a lot of work, and truthfully are always a work in progress. Traders who are interested in getting started with trading futures today can gain Instant access to SizeTrade’s flagship Dragon Signal for FREE for 7 days, and get live trading signals via our mobile app or web platform.

Remember, NEVER fall into luck of timing! As a trader when you are right off the bat with lucky, un-calculated trades you gain false confidence and for a lack of a better term: You will trade like a moron. There's no logic behind your trading, and just because a trade or several trades worked out, it doesn't mean that you are trading correctly. Your confidence is falsely built.

Timing is luck. Timing can work in your favor (and often it does as historically the US markets go up), but eventually your luck will run out and timing will be against you. Traders must build their strategies to protect themselves against that 30% of the time when the market falls.

For those traders who aren't interested in developing the 3rd stage and creating their own strategies, they can easily start trading today by trying SizeTrade's flagship signal, Dragon for FREE for 7 days by filling out the form below.

The first and second principles of SizeTrade's methodology can be applied and traders can experience profitable futures trading starting today.