Adapted from Forex Factory forum post. Rules to follow.

10 GOLDEN TRADING RULES FOR SUCCESS IN FUTURES & FOREX TRADING

It is a well known fact that 90 percent of investors lose money in futures and forex trading, 5-7 percent break even and only 3-5 percent make money. Given the high casualty rate, it is all the more important for investors to approach futures and forex trading in the correct manner. Below are some of the rules that traders should consider following if he is to make money consistently in the futures and forex market:

RULE 1 : USE MONEY THAT YOU CAN AFFORD TO LOSE

Trade only with "extra" money, i.e, money that is not earmarked to pay bank loans, car installments, housing loans, telephone and electricity bills, etc. One of the major reasons for investing only with extra funds is that your trading judgment will remain objective.

RULE 2 : DON’T OVERTRADE

Inexperienced traders can easily become overconfident after a number of winning trades. This can lead to overtrading – which is dangerous. One can be right 7 times out of 10 but the three times that you are wrong can wipe you out if you had overgeared yourself because of overconfidence. Success comes from prudence in money management. Never overtrade.

RULE 3 : CUT YOUR LOSSES SHORT, LET YOUR PROFITS RUN

Learn to be very impatient with losing positions. Learn to resist the temptation of taking your profits too early. Success comes from holding on to profitable positions and riding with the trend for maximum gains while keeping losses small by getting out quickly when you are wrong. One way to protect you from suffering catastrophic losses is to place stop loss orders for every trade entered.

RULE 4 : IF YOU GET INTO A LOSING STREAK, TAKE A BREATHER

When things don’t work out right, when your best forecasts fail you – get away from the market and take a trading break. A period away from the market can be refreshing and will recharge you.

RULE 5 : BUILD A PYRAMID WHEN ADDING TO A PROFITABLE TRADE

As the market moves up and you are long much earlier, you must learn not to double up your positions. Instead, reduce your positions each time you add to a position. If at first you had 10 contracts, the second should not be more than 5-6 contracts and the third should be 50% of your second (i.e. 3 contracts). An upside down pyramid will be top heavy and could wipe out all your hard-earned profits should the market reverse.

RULE 6 : NEVER ADD TO A LOSING POSITION

Adding to a losing position by averaging is very dangerous. Remember you are investing with "margin" and did not pick up scrips. The contract is not yours; you merely paid a percentage of the total value. Averaging a losing position is equivalent to not admitting your mistakes, that you were wrong in the first place. Successful traders cut their losses short.

RULE 7 : DON'T RISK YOUR ENTIRE CAPITAL ON ONE TRADE

Divide your trading capital into 10 equal parts and never lose more than 10 percent on one trade. If you lost the first trade, you still have nine more opportunities to be right. Putting all your capital on one trade is suicidal.

RULE 8 : NEVER MEET MARGIN CALLS

When you are wrong about the market, get out. Once you start procrastinating, very often prices will go against your position, further triggering a margin call from your broker. A margin call simply means that you are wrong in the market and your position should be closed out. Margin calls are made because people do not want to admit being wrong and take a loss; they hope the market will eventually go in their direction. To avoid this mistake, you should never meet margin calls. Just cut your losses and "get the hell out".

RULE 9 : REMOVE PROFITS FROM YOUR ACCOUNT

Probably no more than 1% of traders have a rule to take profits out of their trading account. The few wise investors I know have bought a house, a car or simply put part of their winnings into a fixed deposit account, otherwise the chances are high that they may lose them all back.

RULE 10 : HAVE A GAME PLAN

Lack of a game plan is not knowing what to do when you are wrong – and not knowing what to do even when you are right.

SUMMARY:

You will note that none out of the ten rules of trading mentioned above are on money management. Only Rule 10 describes the importance of having a trading system to determine "when to enter and exit". This just goes to show that good money management is the key to your success in making money in the stocks, futures and currency markets. A good trading system comes second.